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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION
DOCKETS
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UNITED AIR LINES, INC.,
BRITISH MIDLAND AIRWAYS LIMITED,
AUSTRIAN AIRLINES, ÖSTERREICHISCHE
LUFTVERKEHRS AG,
LAUDA AIR LUFTFAHRT AG,
DEUTSCHE LUFTHANSA, A.G.,
and
SCANDINAVIAN AIRLINES SYSTEM

Docket OST-01-10575-1

under 49 U.S.C. §§ 41308 and 41309 for approval of and
antitrust immunity for an Alliance Expansion Agreement
and an Amended Coordination Agreement

**JOINT APPLICATION OF UNITED AIR LINES, INC.,
BRITISH MIDLAND AIRWAYS LIMITED,
AUSTRIAN AIRLINES, ÖSTERREICHISCHE LUFTVERKEHRS AG,
LAUDA AIR LUFTFAHRT AG, DEUTSCHE LUFTHANSA, A.G.,
AND SCANDINAVIAN AIRLINES SYSTEM**

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DATED: September 5, 2001

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| LUFTVERKEHRS AG, |) | |
| LAUDA AIR LUFTFAHRT AG, |) | |
| DEUTSCHE LUFTHANSA, A.G., |) | Docket OST-01- |
| and |) | |
| SCANDINAVIAN AIRLINES SYSTEM |) | |
| |) | |
| under 49 U.S.C. §§ 41308 and 41309 for approval of and |) | |
| antitrust immunity for an Alliance Expansion Agreement |) | |
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| |) | |

Dated: September 5, 2001

**JOINT APPLICATION OF UNITED AIR LINES, INC.,
BRITISH MIDLAND AIRWAYS LIMITED,
AUSTRIAN AIRLINES, ÖSTERREICHISCHE LUFTVERKEHRS AG,
LAUDA AIR LUFTFAHRT AG, DEUTSCHE LUFTHANSA, A.G.,
AND SCANDINAVIAN AIRLINES SYSTEM**

United Air Lines, Inc. (“United”), British Midland Airways Limited, doing business as bmi british midland (“bmi”),¹ Austrian Airlines, Österreichische Luftverkehrs AG (“Austrian”), Lauda Air Luftfahrt AG (“Lauda”),² Deutsche Lufthansa, A.G. (“Lufthansa”), and Scandinavian Airlines System (“SAS”), and their respective affiliates (collectively, the “Joint Applicants”), hereby apply, under 49 U.S.C. §§ 41308 and 41309, for approval of, and antitrust immunity for:

¹ For purposes of this joint application, British Midland Regional Limited, which is a wholly-owned subsidiary of bmi, will not be identified separately, but is included with bmi as an affiliate.

² For purposes of this joint application, Tyrolean Airways, which is a wholly-owned subsidiary of Austrian, will not be identified separately, but is included with Austrian as an affiliate. Austrian also holds a majority interest in Lauda. For purposes of this joint application, the three carriers will be identified as “the Austrian Group.”

- a bilateral alliance agreement between United and bmi, referred to herein as the “Alliance Expansion Agreement” (Exhibit JA-1);³ and
- a multilateral coordination agreement among the Joint Applicants, referred to herein as the “Amended Coordination Agreement.” The Amended Coordination Agreement includes Amendment No. 2 to the Coordination Agreement dated September 5, 2001 (which amends the August 6, 1996 Coordination Agreement executed by United, Lufthansa, and SAS, as subsequently amended by the August 1, 2000 Amendment No. 1 to the Coordination Agreement, which added the Austrian Group to the original three-carrier alliance⁴) in order to add bmi as a named party (Exhibits JA-4 and JA-5).⁵

All of the above agreements between and among the Joint Applicants are collectively referred to herein as the “Alliance Agreements” or “Agreements.” The Joint Applicants request that the antitrust immunity be made effective immediately upon the achievement of a new, liberal bilateral agreement between the United States and the United Kingdom, and remain in effect for a period of not less than five years.

³ For purposes of this application, the term “Alliance Expansion Agreement” shall include the following: (1) the Alliance Expansion Agreement by and between British Midland Airways Limited and United Air Lines, Inc. entered into on September 5, 2001, attached hereto as Exhibit JA-1; (2) the Marketing Cooperation Agreement by and between British Midland Airways Limited and United Air Lines, Inc. entered into on November 8, 1999, Exhibit JA-2; (3) the Code Share and Regulatory Cooperation Agreement by and between British Midland Airways Limited and United Air Lines, Inc. entered into on March 15, 2000 (previously filed with the Department on February 17, 2000 in Docket OST-00-6954), as amended on January 16, 2001, Exhibit JA-3; (4) any implementing agreements in furtherance of the foregoing agreements; and (5) any transaction undertaken pursuant to the foregoing agreements.

⁴ In November 1996, the Department granted approval and antitrust immunity to the United/Lufthansa/SAS alliance. Order 96-11-1. In January 2001, the Department extended that grant of immunity to include the Austrian Group. Order 2001-1-19.

⁵ As stated above, for purposes of this application, the term “Amended Coordination Agreement” shall include the following: (1) Amendment No. 2 to the Coordination Agreement entered into on September 5, 2001, Exhibit JA-4; (2) Amendment No. 1 to the Coordination Agreement entered into on August 1, 2000, Exhibit JA-5 and previously filed with the Department on August 18, 2000 (Docket OST-00-7828); (3) the Coordination Agreement entered into on August 6, 1996 by United, Lufthansa, and SAS, Exhibit JA-5 and previously filed with the Department on August 14, 1996 (Docket OST-96-1646); (4) any implementing agreements in furtherance of the foregoing agreements; and (5) any transaction undertaken pursuant to the foregoing agreements.

In support of this request, the Joint Applicants submit the following:

I. INTRODUCTION

United and bmi have been parties to a code-share and marketing agreement since 1992. Earlier this year, United and bmi initiated joint services between Manchester, on the one hand, and Chicago and Washington, D.C., on the other, whereby United places its code on, and provides other support for, bmi's Manchester-U.S. flights, and bmi places its code on United nonstop flights between Chicago/Washington, D.C. and up to 33 U.S. cities. See Exhibit JA-6. Although United is one of four carriers currently authorized to operate service between the United States and London's Heathrow Airport, it is only the fourth largest carrier in the U.S.-U.K market.⁶

bmi is a relatively small European regional carrier, with a limited domestic U.K. and intra-European network. Its operating fleet is comprised of just 55 aircraft, all but two of which are narrow body aircraft unsuitable for long-haul, transatlantic service. See Exhibit JA-10. In addition to aircraft constraints, bmi lacks the infrastructure, including a U.S. sales and marketing presence, and other resources necessary to enable it to bear the considerable economic risk of independent entry into the London-U.S. market in competition with the established incumbents under a liberalized, openly competitive bilateral regime. In addition to the inherent disadvantages of being a new entrant, bmi

⁶ Whether market shares are calculated on the basis of weekly available seats offered or CRS bookings, United's U.S.-U.K. market share is less than that of British Airways, Virgin Atlantic, and American, whose seat shares, respectively, are 36.5%, 16.9% and 14.1%, compared to United's 12.3% share. OAG, September 2001. See Exhibit JA-8.

would be unable to match the far more extensive resources of each of the incumbent London-U.S. competitors -- all of which are significantly larger than bmi.

In terms of its size, bmi is comparable to other smaller European airlines such as Czech Airlines and Finnair, which, like bmi, have sought to join transatlantic alliances in order to expand the scope of their limited networks and compete with larger rivals. See Exhibit JA-17. Unlike those carriers, however, bmi is not the recognized flag carrier of its home country and, thus, has had to develop its limited service network without the benefit of a flag carrier's home market recognition. bmi also is substantially smaller than its principal U.K. competitor, British Airways.⁷

bmi's expanded, antitrust-immunized cooperation with United and its addition to the existing United/Austrian Group/Lufthansa/SAS immunized alliance (referred to herein as the "European Alliance") is a logical next step in bmi's development from a European regional to a transatlantic carrier. bmi already has formed various intra-European cooperative arrangements with Lufthansa, SAS, and the Austrian Group, and is developing its European services with the benefit of traffic feed from the combined network of those four carriers. Similarly, bmi's recent, limited entry into the U.K.-U.S. market from Manchester has been possible only because of its cooperation with United, which ensures, among other things, substantial U.S. traffic feed and sales and marketing support for the service. It is no coincidence that the two U.S. gateways bmi has elected to

⁷ For example, based on data reported to the Association of European Airlines, in calendar year 2000, British Airways carried nearly 450% more passengers and earned over 600% more passenger revenues on scheduled European services than did bmi.

serve, Chicago and Washington, D.C., both are United hubs. In sum, bmi's ability and intent to introduce service between Heathrow and the U.S. using its own aircraft is contingent on the traffic feed and coordinated network operations that an immunized alliance with United, the Austrian Group, Lufthansa, and SAS will provide.

In order to compete more effectively with the alliance proposed by American Airlines ("American") and British Airways, the SkyTeam alliance among Delta Air Lines, Air France, Alitalia, and Czech Airlines, and others, United is seeking antitrust immunity to expand its limited existing cooperation with bmi, and, in conjunction with the Austrian Group, Lufthansa, and SAS, to add bmi to the immunized European Alliance. United and bmi, by linking their respective networks, will develop as a strong, albeit smaller, competitive alternative to British Airways, the incumbent market leader, and its alliance partners, as well as to the other U.S.-U.K. incumbent competitors and their respective alliance groupings. Meanwhile, the implementation of an expanded, five-carrier immunized alliance comprising United, bmi, the Austrian Group, Lufthansa, and SAS will further enhance the important consumer benefits that the existing four-carrier alliance continues to generate.

An immunized alliance with bmi will enable United to link its global network of services to bmi's regional network at Heathrow, bmi's primary hub.⁸ The ability to link U.S. points with European and other global points via Heathrow will increase

⁸ Although United and bmi will continue to be independent companies, the underlying objective of their Alliance Expansion Agreement is to enable the two carriers to plan and coordinate services over their respective route networks as if there had been an operational merger between them.

significantly the number of global city pairs in which United (and its alliance partners) can compete and will enhance the range of competitive routing and service options that United can offer in U.S.-U.K. and U.S.-Europe markets and beyond.⁹ The combined United/bmi global network will incorporate a total of 37,950 city/airport pairs. For its part, bmi will be positioned to add new service to the transatlantic market and, by coordinating its services with those of United, offer passengers an integrated network of services, not just between London and U.S. gateway cities, but to and from many more behind- and beyond-gateway points in Europe and the United States.

The addition of bmi will constitute an important expansion of the immunized European Alliance. As the Department and others have recognized, that alliance (and other such alliances) have generated substantial benefits for transatlantic passengers by increasing the range of competitive service options and reducing fares.¹⁰ bmi, meanwhile, as stated above, already has established cooperative arrangements with Lufthansa, SAS, and Austrian for intra-European services. Implementation of an antitrust-immunized alliance of those four European carriers and United will enable the five carriers, among

⁹ For example, under U.S.-U.K. open skies, United and bmi would be able to coordinate fully their on-line connecting services on routings between Spain and the U.S. via Heathrow from Madrid, Barcelona and Palma de Mallorca. (Connections via points such as Frankfurt, Vienna or Copenhagen are less convenient.) In the absence of an open skies agreement between the U.S. and the U.K., bmi has been unable to display its code on United's Heathrow services, thereby precluding competition with Iberia and its oneworld partners, British Airways and American for U.S.-Spain passengers. At a minimum, however, with a U.S.-U.K. open skies agreement, bmi and United would be able to offer the coordinated on-line connecting services described above under bmi's code.

¹⁰ See International Aviation Developments (Second Report): Transatlantic Deregulation, The Alliance Network Effect, October 2000 (U.S. Department of Transportation, Office of the Secretary) ("DOT Second Report"); Brueckner 2000, discussed infra, at notes 38-40 and 43, and accompanying text.

other things, to: 1) establish an integrated global network that extends across the Atlantic to the U.K., Europe, and beyond; and 2) to coordinate the more extensive range of services the carriers can offer over that expanded network. The expanded European Alliance's global network will incorporate a total of 101,475 city/airport pairs. Significantly, with the addition of bmi, that network will be able to feed traffic over the Atlantic via Heathrow, which is the busiest and most popular gateway point for transatlantic passengers. Such Heathrow routings unquestionably will expand the quality and quantity of competitive service options provided by the five carriers."¹¹

Most applications for antitrust immunity involve a reduction in the number of competitors in relevant markets where the applicants operate overlapping nonstop services. Approval of the pending American/British Airways application, for example, will reduce the number of major competitors in the U.S.-U.K. market by one, to be replaced by immunized cooperation between two carriers that already hold the largest share of that market. This joint application, however, is entirely different because the addition of bmi to the European Alliance will expand the pro-competitive and pro-consumer benefits of that arrangement, without reducing the number of competitors in any relevant market. This is because bmi currently does not serve any London-U.S.

¹¹ The Joint Applicants will, for example, be able to provide more convenient connections via Heathrow in markets such as between the U.S. and the U.K., Ireland, Spain, Italy and France, where connections via points such as Frankfurt, Vienna and Copenhagen are less convenient.

market and is not a potential entrant into that market absent approval of this joint application.¹²

The recent joint applications for antitrust immunity filed by American/British Airways and by the SkyTeam alliance demonstrate the growing importance and continuing expansion of network-to-network transatlantic competition. The establishment of antitrust-immunized alliances has enabled carriers to transform the level, quality, and competitiveness of the international air services they offer consumers. As the Department has recognized, “[a]lliance-based networks are the principal driving force behind transatlantic price reductions and traffic gains.”¹³ In the event that the American/British Airways and SkyTeam alliances are granted antitrust immunity, those alliances will compete with the existing immunized alliances of Northwest/KLM, American/Swissair/Sabena,¹⁴ and the European Alliance, as well as other major

¹² None of the joint applicants operates overlapping services in any U.S.-U.K. city pair.

¹³ DOT Second Report, at 5. In addition to the Department, the European Commission also has recognized the benefits of intra-European cooperation among the joint applicants. In approving a cooperation agreement between bmi, Lufthansa and SAS, the EC commented, “[t]he Commission believes that the agreement will lead to important benefits in terms of greater choice of services and better connections on a number of routes within Europe.” EC press release, *Commission approves partnership between bmi british midland, Lufthansa and SAS*, June 13, 2001

¹⁴ American has stated that “its immunized alliance with Swissair and Sabena will remain in effect following implementation of the American/British Airways immunized alliance. The agreement between American and British Airways does not contemplate any operational integration with Swissair or Sabena or any third party airline, or for Swissair or Sabena to join the oneworld alliance.” Joint Application Of American Airlines, Inc. And British Airways PLC For Antitrust Immunity, August 10, 2001, at 68.

transatlantic competitors that are not members of immunized alliances, such as Virgin Atlantic Airways,¹⁵ Continental Airlines, and US Airways.

Upon implementation of a liberalized U.S.-U.K. bilateral agreement, meaningful alliance-based competition will become possible in this market for the first time. A total of nine U.S. and U.K. carriers already operate regularly scheduled passenger services, and with a more liberal bilateral environment, the number of airlines and services operated is certain to increase. With open skies and the grant of immunity to United/bmi, the SkyTeam alliance, and American/British Airways, the current limited point-to-point services in the U.S.- London market would be replaced by competition among five¹⁶ transatlantic alliance networks. Having said that, British Airways clearly is the market leader; indeed, if implemented, the proposed British Airways/American alliance will control more than 50% of the U.S.-U.K. market.¹⁷ As stated above, United is only the fourth largest carrier in that market in terms of available seats.¹⁸ bmi currently operates no direct services between London and the United States.

¹⁵ Virgin Atlantic, which operates a code-share alliance with Continental between London and the U.S., has a substantially higher share of U.S.-U.K. bookings with a U.K. point of sale (17.7%) than does United (11.5%). CRS booking data, 12 months ended July 2001.

¹⁶ The point-to-point services of American, British Airways, Virgin Atlantic, and United would be replaced by alliance competition between American/British Airways (*et al.*), Delta/Air France (*et al.*), Continental/Virgin Atlantic, Northwest/KLM (*et al.*), and United/bmi (*et al.*). Although Continental Airlines is not designated to operate its own services at Heathrow, it holds out extensive Heathrow services from major U.S. gateways, including New York (JFK & EWR), San Francisco, Los Angeles and Washington D.C., in conjunction with Virgin Atlantic Airways, through what both airlines describe on their websites as an "alliance" arrangement.

¹⁷ OAG, September 2001 (American and British Airways account for approximately 51% of all seats in the U.S.-U.K. market).

¹⁸ OAG, September 2001.

The current air services agreement between the United States and the United Kingdom,¹⁹ prohibits bmi from operating or code sharing²⁰ on any services to the U.S. from Heathrow, bmi's principal base of operation. The U.S. government has for several years attempted to negotiate a more liberal agreement with the U.K., which would provide U.S. and U.K. airlines with new opportunities to enter and enhance their competitive presence in transatlantic and other international markets. The U.K. government, however, has made repeated public statements that such liberalization will occur only if British Airways, the largest airline in Europe, is successful in its attempt to secure antitrust immunity for an alliance with American.

The American/British Airways joint application for such immunity filed on August 10, 2001, makes the conclusion of a new, more liberal, bilateral aviation agreement between the U.S. and the U.K. more likely. United and bmi, along with the Austrian Group, Lufthansa, and SAS, have decided to submit this joint application for alliance approval and antitrust immunity in order to facilitate the Department's review of their plans for making the fullest possible use of the potential rights and opportunities that

¹⁹ Air services between the U.S. and the U.K. today operate subject to the so-called "Bermuda II Agreement," a bilateral air transport agreement signed in 1977. This Agreement, which is highly restrictive, includes limitations, amongst other things, on the ability of U.S. and U.K. carriers to determine the city pairs and airports they wish to serve, the number of flights they wish to operate, and the level of fares they wish to charge passengers.

²⁰ In January 2001, a joint application by United and bmi for extra-bilateral authority to place bmi's designator code on transatlantic flights operated by United to and from London Heathrow was denied without prejudice by the Department in light of the "state of our aviation relationship with the United Kingdom" at that time. Notice of Action Taken, January 26, 2001 (Docket OST-00-8485). The attainment of a U.S.-U.K. open skies agreement (upon which this joint application is premised) would eliminate the basis for that denial.

a new U.S.-U.K. bilateral agreement will generate. The Joint Applicants request that the Department commence such a review immediately, so that it will be in a position to approve the joint application as soon as a new liberalized bilateral agreement is concluded. As stated above, the enhanced cooperation contemplated by the Joint Applicants will generate substantial competitive and consumer benefits, but the realization of those benefits is contingent on the Department's approval of and grant of antitrust immunity for expanded cooperation between United and bmi and the addition of bmi to the immunized European Alliance.

II. BACKGROUND

1. United and bmi

a) United.

United is a U.S.-certificated air carrier holding authority to operate domestic and international scheduled air transportation of persons, property and mail. United holds a certificate of public convenience and necessity for Route 603 (Order 91-2-5), which authorizes United to provide scheduled service between points in the U.S. and points in the U.K., and route integration authority enabling United to combine service to the U.K. with service to third countries intermediate to and beyond the United Kingdom. Notice of Action Taken, June 8, 2001 (Docket OST-97-2126).²¹ United holds statements of authorization pursuant to 14 C.F.R. Part 212 permitting United to place bmi's "BD"

²¹ United also holds an exemption to serve Manchester, England from any point(s) in the U.S. via any points in third countries, with route integration authority. Notice of Action Taken, March 29, 2000 (Docket OST-96-1348).

designator code on flights operated by United beyond Chicago and Washington, D.C. (IAD) to 33 U.S. cities and Mexico City. See Order 2000-7-27, at 5, as amended by Notice of Action Taken, January 26, 2001 (Docket OST-00-6842) and Department Action on Application in Docket OST-01-9983 (July 3, 2001).

United currently operates daily nonstop services between Boston, Chicago, Los Angeles, New York (JFK), Newark, San Francisco, and Washington, D.C. (IAD), on the one hand, and London Heathrow, on the other.²² United currently places its code on bmi's flights between London Heathrow, on the one hand, and Amsterdam, Belfast, Brussels, Dublin, Edinburgh, Glasgow, Leeds/Bradford, Manchester, Nice and Teesside, on the other; and between East Midlands and Brussels.²³

b) bmi.

bmi is a small regional U.K. carrier operating domestic passenger and cargo services within the U.K. and between the U.K. and points within Europe and the U.S., with its primary base of operations at London Heathrow. The company is a wholly-owned subsidiary of British Midland PLC, which in turn is 60% owned by The BBW Partnership Limited and other British Nationals, 20% by Lufthansa, and 20% by SAS. bmi serves a total of 30 destinations in 10 European countries and also operates to

²² See Exhibit JA-11 (setting forth United's current schedules).

²³ Exhibits JA-12 and JA-13 describe United's and bmi's respective code-share relationships with other airlines.

Chicago and Washington, D.C. from Manchester.²⁴ In 2000, fewer than 7.1 million passengers used the services of bmi, traveling to, from, or within the United Kingdom.

bmi holds an exemption from 49 U.S.C. § 41301 authorizing it to engage in scheduled foreign air transportation of persons, property, and mail between Manchester and the co-terminal points, Chicago and Washington, D.C., and beyond to 33 U.S. cities pursuant to its code-share arrangement with United.²⁵ Order 2000-7-27, at 5, as amended by Notice of Action Taken, January 26, 2001 (Docket OST-00-6954).²⁶

bmi also holds a statement of authorization pursuant to 14 C.F.R. Part 212 to place United's "UA" designator code on bmi's flights between Manchester and Chicago/Washington, D.C., and between London (LHR)/Manchester/Birmingham/East Midlands and other points in the U.K. and certain European third countries. See Order 2000-7-27, at 2 n.2, 5. In addition, bmi holds separate statements of authorization to place United's code on bmi flights between London (LHR) and Amsterdam, Brussels, Dublin, Frankfurt, Nice, and certain points in the U.K., and between Brussels and Birmingham-East Midlands. See id. at 2 n.3, 5; Department Action on Application in Docket OST-01-9830, July 3, 2001 (Dublin).

²⁴ See Exhibit JA-11 (setting forth bmi's current schedules).

²⁵ bmi also holds a foreign air carrier permit issued by the CAB authorizing it to operate charter services between the U.K. and the U.S. Order 80-4-119.

²⁶ bmi holds authority from the Department to code share on flights operated by Atlantic Coast Airlines to a total of 25 U.S. points beyond Chicago and 42 U.S. points beyond Washington, D.C. bmi also is authorized to place Mexicana's "MX" designator code on bmi's flights between Manchester and Chicago, and to place its "BD" code on Mexicana's flights between Chicago and Mexico City for purposes of carrying code-share passengers between the U.K. and Mexico. Notice of Action Taken, August 27, 2001 (Dockets OST-01-9978, 01-9985).

In looking to enter the London-U.S. market, bmi faces formidable challenges and obstacles. bmi is a very small carrier relative to such incumbents as British Airways, Virgin Atlantic, American, Delta, Northwest, Continental, and US Airways, all of which are well-established transatlantic competitors. Unlike those carriers, bmi lacks a market presence, corporate identity, and operational infrastructure and resources in the United States.

In light of the above, bmi has determined that it can only enter, and develop its presence in, the U.S.-U.K. market if it does so as part of an antitrust-immunized alliance with United. Given the development of other transatlantic alliances, including the recent applications by American/British Airways and Delta/Air France/Alitalia/Czech Airlines, bmi would not now be able to enter the U.S.-U.K. market as an independent operator without a similar alliance with a U.S. carrier. For example, bmi's decision to introduce service between Manchester and Chicago/Washington is predicated, in part, on the substantial U.S. traffic feed that United can generate at its Chicago and Washington hubs. Without such traffic feed, marketing support and other cooperation with United, bmi would not have been in a position to enter these Manchester-U.S. city pairs.

2. The Alliance Expansion Agreement

United and bmi have signed the Alliance Expansion Agreement in order to enhance their existing cooperation and, with the benefit of antitrust immunity, to integrate their independent service offerings, improve the efficiency of those services, and create an integrated global air transport network. (Exhibit JA-1, Article 2.1.) By means of the

Alliance Expansion Agreement, United and bmi intend to expand their cooperative activities to U.S.-London and beyond markets in each of the following principal areas:²⁷

a) Route and schedule coordination. United and bmi will coordinate their route and schedule planning to the maximum feasible extent, with the goals of (i) offering the maximum number of traveling and shipping options of optimal quality and efficiency to the public; (ii) allocating resources such as fleets, airport slots and gates most efficiently; and (iii) enhancing profitability through coordinated route, schedule and operations planning. (Exhibit JA-1, Article 4.1.)

b) Marketing, advertising and distribution. United and bmi intend to establish closer cooperation and integration of their marketing, advertising and distribution networks, programs and systems, including (i) joint marketing, with a focus on specific customer groups; (ii) coordinated sales forces; and (iii) unified commission schedules and override agreements. (Exhibit JA-1, Article 4.2.)

c) Co-branding and joint product development. United and bmi may seek to co-brand existing products, possibly through the use of a joint logo and/or corporate markings. They also plan to consider developing co-branded products, including such things as interior design, cabin layout, in-flight entertainment amenities, and passenger ground services. (Exhibit JA-1, Article 4.3.)

²⁷ With immunity, United and bmi intend to conclude an agreement providing for the integration of the carriers' network of U.S.-U.K. services into a fully coordinated network that would include revenue sharing and coordination between the carriers of pricing and yield management, marketing and network planning.

d) Code sharing. In order to expand their global networks, United and bmi intend to code share across as much of their route networks as possible, subject to applicable air service agreements. (Exhibit JA-1, Article 4.4.) In the case of bmi, such code sharing will enable the carrier to extend its on-line network into most of the major population centers in the United States, an extension of its network that is critical to its ability to compete with British Airways, Virgin Atlantic, and other European carriers and their partners in the global marketplace. Without code sharing, it is economically impossible for a relatively small carrier like bmi to develop an on-line global network comparable to those of its principal European competitors. In United's case, code sharing with bmi and its affiliates will enhance its ability to extend its network further into the U.K. and Europe. With this access, United can offer consumers an attractive on-line alternative to the network of services its major transatlantic competitors and their partners offer.

e) Pricing, inventory and yield management coordination. United and bmi will coordinate pricing, inventory and yield management with respect to all services included in their respective networks, including the development of corporate fares, net fares, retail and promotional fares, bids for government business, uniform auxiliary service charges and collection policies, revenue management and inventory management. (Exhibit JA-1, Article 4.5.)

f) Revenue sharing. United and bmi intend to share net revenues (less certain operating costs) on routes they will later identify. (Exhibit JA-1, Article 4.6.)

g) Joint procurement. United and bmi will seek to expand their joint procurement opportunities in an effort to reduce costs, including volume purchases, the establishment of common specifications, streamlining purchasing, and establishing a joint purchasing group. Joint procurement efforts may include such things as ground handling services, general goods and services, field station supplies, catering, crew uniforms, information technology, financial services, aircraft and equipment, fuel and maintenance. (Exhibit JA-1, Article 4.7.)

h) Support services. United and bmi plan to extend their cooperative efforts with respect to air and ground side passenger and aircraft handling services at all airports they serve in common. In third countries, the carriers will determine the most cost-effective means of meeting their combined needs. They also will look to implement joint crew and personnel training and investigate joint purchasing for catering operations and other services. (Exhibit JA-1, Article 4.8.)

i) Cargo services. United and bmi contemplate integrating their cargo services to the maximum extent feasible, including the development of express cargo products, joint usage of cargo facilities, coordinated trucking and harmonized cargo standards. (Exhibit JA-1, Article 4.9.)

j) Information services. United and bmi plan to coordinate their information systems, including inventory, yield management, reservations, ticketing, distribution and other operational systems, with the goal of integrating all of their information technology to the fullest extent possible. They also will work to utilize jointly new technologies such as electronic ticketing, on-line distribution networks, flight planning, accounting, maintenance and other technology systems. (Exhibit JA-1, Article 4.10.)

k) Frequent flyer programs. United and bmi intend to further refine their frequent flyer program cooperation to enhance program administration, reduce costs and improve efficiency. (Exhibit JA-1, Article 4.11.)

l) Financial reporting. To facilitate revenue sharing and promote easier coordination of yield management, United and bmi will consider harmonizing their financial reporting practices, including revenue and cost accounting practices. (Exhibit JA-1, Article 4.12.)

m) Harmonization of standards/quality assurance. United and bmi intend to harmonize their product and service standards and in-flight amenities. (Exhibit JA-1, Article 4.13.)

n) Technical services/maintenance. United and bmi will explore the possibility of each providing the other aircraft and ground equipment, as well as technical and maintenance services at appropriate locations. (Exhibit JA-1, Article 4.14.)

o) Facilities. United and bmi will seek to share facilities and services at commonly served airports, to the extent feasible. (Exhibit JA-1, Article 4.15.)

3. The Amended Coordination Agreement

In November 1996, the Department granted approval of and antitrust immunity for the United/SAS Alliance Expansion Agreement and for a separate Coordination Agreement among United, SAS, and Lufthansa. Order 96-11-1. The Coordination Agreement provided the link between the newly-immunized United/SAS alliance and the previously-immunized United/Lufthansa alliance. By its terms, the Coordination Agreement was open to participation by additional carriers and alliances, subject to obtaining the necessary regulatory approvals.²⁸ In January 2001, the Department granted approval of and antitrust immunity for the United/Austrian Group Alliance Expansion Agreement and Amendment No. 1 to the Coordination Agreement, pursuant to which the Austrian Group was added to the existing United/Lufthansa/SAS immunized alliance. Order 2001-1-19. Now, by Amendment No. 2 to the Coordination Agreement, the Joint Applicants plan to add bmi to form a five-carrier immunized alliance. In so doing, the Amended Coordination Agreement provides a long-term framework for coordination between and among the Joint Applicants.

Enhanced coordination will enable the Joint Applicants to enter into multi-party discussions to plan activities between and among themselves, thereby avoiding the inefficiencies, risks and costs of coordinating their global alliance through a series of

²⁸ Exhibit JA-5, Article 5.

bilateral discussions and separate agreements. This is particularly important for bmi given its existing cooperation agreement with Lufthansa and SAS on certain intra-European routes and the fact that both Lufthansa and SAS are shareholders of bmi.²⁹

Multi-party coordination will allow the Joint Applicants to explore improved commercial cooperation to further their goal of offering a seamless global transportation network built upon the carriers' individual route networks. This coordination may include such things as joint advertising and marketing programs, joint fare promotions, joint bids for government and corporate travel accounts, joint revenue sharing on certain routes, and the coordination of code sharing and operations planning for the carriers' services.³⁰

²⁹ bmi also has established longstanding code-share and other cooperative arrangements with the Austrian Group.

³⁰ Specifically, the Amended Coordination Agreement provides for two or more of the parties to:

- Exchange information regarding actions undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination listed below;
- Discuss the manner in which any action undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination relates to or should relate to actions undertaken or to be undertaken under any other alliance or the alliances within that area of coordination; and
- Agree on and coordinate actions within any area of coordination.

The enumerated areas of coordination include: route and schedule planning and coordination; marketing, advertising, sales and distribution networks, staffs, programs, policies and systems; branding/co-branding, product development and market research; code sharing; pricing, inventory and yield management; revenue sharing and joint ventures; procurement of goods and services; obtaining and providing support services; cargo services; information systems and technologies and distribution channels; frequent flyer programs; financial reporting practices; service levels and in-flight amenities; provision of aircraft and ground equipment, technical and maintenance services; sharing of airport facilities and services; development and implementation of a model to calculate and share incremental benefits of the alliances; and promoting common use of commuter carrier affiliates. Exhibit JA-5, Article 2.

The planned coordination is comparable to that previously approved by the Department for United/Austrian Group/Lufthansa/SAS, Orders 2001-1-19, 96-11-1, Delta/Austrian/Sabena/Swissair, Order 96-6-33, Northwest/KLM/Alitalia, Order 99-12-5, and American/Sabena/Swissair, Order 2000-5-13. In each of those cases, the Department decided to immunize the carriers' multi-party coordination agreements, finding them to be an integral part of their respective alliances that would provide important public benefits which would not otherwise be obtainable. See Orders 96-11-1, at 16-18; 96-5-26, at 5; 99-11-20, at 9, 13; 2000-4-22, at 9, 14; and 2001-1-19, at 12. The same conclusion should be reached here.

United and bmi plan to implement their Alliance Expansion Agreement, and the Joint Applicants intend to implement their Amended Coordination Agreement, upon receipt of all necessary government approvals.

III. THE ALLIANCE EXPANSION AGREEMENT AND AMENDED COORDINATION AGREEMENT SHOULD BE APPROVED UNDER 49 U.S.C. § 41309 AND GRANTED ANTITRUST IMMUNITY UNDER 49 U.S.C. § 41308.

A. EXTENDING ANTITRUST IMMUNITY FOR THE ALLIANCE AGREEMENTS IS CONSISTENT WITH U.S. COMPETITION AND AVIATION POLICIES AND WILL PROVIDE CONSUMERS WITH IMPORTANT BENEFITS THAT WOULD NOT OTHERWISE BE OBTAINABLE.

A grant of antitrust immunity to the United/bmi/Austrian Group/Lufthansa/SAS alliance is fully consistent with U.S. competition and international aviation policies, which encourage the development of global arrangements between U.S. and foreign

carriers in order to facilitate the expansion of airline networks and increase carrier efficiency, thereby benefiting consumers and enhancing competition.³¹ In the Department's remarks on the benefits of multinational global alliances, offered when granting tentative approval for American's existing immunized alliance with Swissair and Sabena, the Department stated:

[T]he pro-competitive effect of global alliances is particularly evident in the case of the behind- and beyond-markets where integrated alliances with coordinated connections, marketing, and services can offer competition well beyond mere interlining. Integrated alliances can, in short, offer a multitude of new on-line services to thousands of city-pair markets, on a global basis. . . . Our recent evaluation of international alliances shows that they stimulate traffic in these connecting markets and thereby increase competition and service options in the overall international market and increase overall opportunities for the traveling public and the aviation industry.³²

In a speech in 1999 on this same topic, former Assistant Secretary for Aviation and International Affairs Charles Hunnicutt explained that detailed studies by the Department confirm that "alliances holding antitrust immunity . . . are growing and are now . . . offering single-system service to millions of passengers annually[,] . . . providing improved service in a large number of markets that have historically suffered from poor service and no competitive benefits."³³ Assistant Secretary Hunnicutt pointed out that "consumers have responded favorably to the improved service being offered by the

³¹ See Statement of United States International Air Transportation Policy, 60 Fed. Reg. 21841 (May 3, 1995).

³² Order 2000-4-22, at 9 (footnotes omitted).

³³ Remarks of Assistant Secretary Hunnicutt before the World Travel and Tourism Annual Conference, March 8, 1999, at 4.

alliances, as . . . traffic in connecting markets is growing at 2.5 times the rate of growth in the so called gateway-to-gateway markets.” The Department’s studies also show that “alliances have increased international aviation competition[, with] [t]wo or more alliances . . . now competing in nearly 2500 city pair markets.”³⁴ As a result of “the improved service and . . . competition offered by the alliances[,] . . . millions of consumers and thousands of communities . . . [now have] improved air service and lower fares.”³⁵

A 1994 study on international code sharing commissioned by the Department explained that carriers in an immunized alliance can “discuss and jointly decide on fare levels and the capacity deployed The result is that both airlines can aggressively market service in every city-pair market they serve”³⁶ The study further noted that antitrust immunity “allows alliance partners to share revenue equally, assuring that both carriers can capture the benefits of the alliance.”³⁷

The fact that alliances lower fares is further demonstrated in an independent empirical analysis conducted by economist Jan K. Brueckner of the University of

³⁴ Id.

³⁵ Id. Deputy Secretary of Transportation Mortimer Downey stated that the Department’s studies “confirm that the existing airline alliances are competing and that this competition is producing substantial public benefits,” including a “decline in average fares in U.S.-Europe markets.” Mortimer L. Downey, Deputy Secretary of Transportation, *Our Strategic Goals: Open and Safe Skies*, Remarks before the Global Air & Space '99 Conference, Crystal City, Virginia, May 3, 1999, at 2.

³⁶ A Study of International Airline Code Sharing, Gellman Research Associates, Inc., Dec. 1994, at 9.

³⁷ Id.

Illinois.³⁸ Specifically, the Brueckner 2000 econometric study, based on DOT airline fare data, found that international alliance carriers charge fares that are approximately 27% below those charged by nonallied carriers on interline (connecting) routes. A similar prior study, meanwhile, did “not show clear evidence of *any* losses to gateway-to-gateway passengers from overlapping alliance service.”³⁹ The Brueckner 2000 study also quantified the consumer benefits that have already accrued from the United/Lufthansa/SAS alliance and found that, if the United/Lufthansa and United/SAS relationships were terminated, the collective loss to their interline passengers would amount to approximately \$80 million to \$100 million annually, derived from the competitive fares these alliances provide.⁴⁰

Similarly, successive Department reports on international airline competition have documented significant fare reductions in gateway-to-gateway city pairs where

³⁸ Jan K. Brueckner, The Benefits of Codesharing and Antitrust Immunity for International Passengers, with an Application to the Star Alliance, University of Illinois at Urbana-Champaign (June 2000), summarizing technical findings in Jan K. Brueckner, International Airfares in the Age of Alliances: The Effects of Codesharing and Antitrust Immunity, University of Illinois at Urbana-Champaign (June 2000) (“Brueckner 2000”). A copy of the non-technical summary of the Brueckner 2000 study was attached as Exhibit JA-8 to the August 18, 2000 joint application of United, Austrian Group, Lufthansa and SAS for antitrust immunity (Docket OST-00-7828).

³⁹ Jan K. Brueckner & W. Tom Whalen, Consumer Welfare Gains from United’s Alliances with Lufthansa and SAS, University of Illinois at Urbana-Champaign (Dec. 1998), at 6 (emphasis in original). (The Brueckner 2000 study did not revisit the issue of fares in overlapping gateway-to-gateway markets.)

⁴⁰ Brueckner 2000, *supra*, at 12 (“The immunity enjoyed by Star Alliance partners generates an aggregate benefit of about \$80 million per year for interline passengers. Codesharing among Star partners yields a further annual benefit of around \$20 million. Thus, these two existing forms of cooperation generate a benefit for the alliance’s passengers of approximately \$100 million per year.”).

immunized alliances were operating transatlantic service.⁴¹ The Department has concluded that “broad-based strategic alliances . . . are the principal driving force behind transatlantic price reductions and traffic gains.” DOT Second Report, at 5.⁴²

Adding bmi to the immunized European Alliance will bring these services and fare improvements to the many passengers on bmi's network who might otherwise be denied the benefits of a global alliance.⁴³ The inclusion of bmi also will allow the European Alliance carriers to achieve additional operating efficiencies that will translate directly into greater value for passengers and shippers, and generate broad economic benefits for communities throughout the carriers' respective route networks. None of these benefits could be fully obtained without the requested grant of immunity.

B. A GRANT OF ANTITRUST IMMUNITY WILL ADVANCE U.S. FOREIGN POLICY OBJECTIVES.

The past decade has witnessed a major expansion in airline services to and from the United States. Much of this growth can be directly attributed to the U.S. government's ongoing efforts to achieve liberalized aviation agreements with key trading

⁴¹ International Aviation Developments: Global Deregulation Takes Off (First Report), U.S. Department of Transportation, Office of the Secretary (Dec. 1999) (“DOT First Report”), at 14-15.; DOT Second Report, at 2-3, 5.

⁴² See also *Remarks of Susan McDermott, Deputy Assistant Secretary For Aviation and International Affairs, Office of the Secretary, U.S. Department of Transportation, to the International Air Cargo Association Conference, Washington, D.C., Sept. 29, 2000* (“multinational airline alliances have [s]timulated demand, [l]ed to pro competitive changes in industry structure, [and p]rovided consumers the benefits of improved services and substantially lower prices”).

⁴³ Brueckner estimates that “if cooperation within the Star Alliance were to expand through the extension of antitrust immunity to those partners that do not currently enjoy it, then \$20 million of additional benefits would be generated.” Brueckner 2000, supra, at 12.

partners around the world.⁴⁴ These efforts go hand-in-hand with the Department's reliance on antitrust-immunized alliances to promote the expansion of carrier networks and network-to-network competition, particularly in behind- and beyond-gateway markets. In its December 1999 report on transatlantic alliances, the Department stated, "[t]he overwhelming balance of evidence demonstrates that international deregulation resulting from open skies agreements has greatly expanded the well being of consumers . . . [and] that broad-based immunized alliances have been an important component of open skies related developments."⁴⁵

As part of this liberalization movement, a new U.S.-U.K. open skies agreement would lay the groundwork for bmi's participation in the European Alliance. Only through becoming part of a global airline network can bmi fully realize the potential opportunities available to it under a new U.S.-U.K. agreement. Because globalization necessarily involves the transcontinental linkage of hub networks, the "ability to effectively flow passenger traffic between [U.S. carriers'] own and others' networks . . . enable[s] carriers to provide much improved, more competitive services to millions more

⁴⁴ Secretary Mineta has made clear that the Bush Administration is committed to the liberalization policies of its predecessor. *See Remarks (as prepared for delivery by) U.S. Secretary of Transportation Norman Y. Mineta to Global Air & Space 2001 International Business Forum, Washington, D.C., May 8, 2001* ("We must continue moving the liberalization process forward. Our open-skies initiative has demonstrated the importance of this for airlines, consumers, general economic development, and for fostering the process of globalization. With 53 Open Skies agreements, we have a firm foundation on which to build. I am committed to pursuing all reasonable options for moving international aviation liberalization forward.").

⁴⁵ *DOT First Report*, at 6. In its October 2000 follow-up report, the Department went even further, concluding that alliances in general, and antitrust-immunized alliances in particular, have been at the vanguard of providing lower fares to more passengers. *DOT Second Report*, at 5. The Department stated that "[a]lliances are providing improved service to more passengers in more markets. . . . [W]e expect greater consumer benefits as alliances continue to evolve and expand." *Id.* at 5-6.

travelers and shippers every year.”⁴⁶ The Department’s policy encouraging the development of integrated global alliances, which are the primary means for carriers to fully realize the potential benefits available under open skies agreements, provides a strong incentive for nations to liberalize their air service relationships with the United States.

Due to the nationality limitations in virtually all bilateral air service agreements and limitations on foreign ownership and control in many of the world’s industrial countries, antitrust immunity has become an essential tool in facilitating inter-carrier arrangements that increase carriers’ efficiency and competitiveness in the developing global marketplace. This promotes the growth of network-to-network competition and helps airlines respond better to consumers’ increasing need for a truly global air transport product. In its December 1999 report on multinational airline alliances, the Department pointed out that “the airline industry, by its very nature, is a network industry and . . . network competition produces far better service at lower prices . . . particularly [in] longer-distance, less dense markets Airline alliances, therefore, are the only practical way to provide improved, more competitive service to such markets.”⁴⁷

The Department has already approved and immunized a total of ten alliances between U.S. and foreign air carriers, including the United/Austrian Group/Lufthansa/

⁴⁶ Remarks of Secretary Peña at the 50th Anniversary Commemoration of the Chicago Convention (Nov. 1, 1994), at 4. See also Statement of Secretary Peña before the Senate Commerce Committee (July 11, 1995) (“the trend towards globalization of air services through efficiency-enhancing networks and alliances is here to stay, . . . offer[ing] great public benefits for all nations”).

⁴⁷ DOT First Report, at 5. See also DOT Second Report, at 5-6.

SAS, American/Swissair/Sabena, and Northwest/KLM alliances.⁴⁸ In each case, the Department has found that, with a grant of immunity, these alliances would provide important new price, service and product options in the global marketplace. In granting antitrust immunity to Austrian's former alliance with Delta, Sabena and Swissair, for example, the Department stated:

[A]irlines around the world are forming alliances and linking their systems to become partners in transnational networks to capture the operating efficiencies of larger networks, and to permit improved service to a wider array of city-pair markets. We are already seeing the benefits of these international alliances, and we have undertaken to facilitate them and the efficiencies they can generate, and where possible to do so consistently with consumer welfare. We believe that competition between and among these global alliances is likely to play a critically important role in ensuring that consumers in this emerging environment have multiple competing options to travel where they wish as inexpensively and conveniently as possible.

Order 96-5-25, at 27.

The Department's expectations have been fully borne out in the marketplace, as network-to-network competition has increased substantially, producing significant consumer welfare gains. As detailed in the Department's December 1999 report on global alliances, immunized alliances are providing "improved, more competitive services in literally thousands of markets."⁴⁹ As a consequence, "they are stimulating

⁴⁸ After a number of years of successful collaboration, the "Atlantic Excellence" alliance partners agreed to disband, effective August 5, 2000, to enable the carriers to pursue closer ties with new partners, including the Austrian Group's alliance with United/Lufthansa/SAS, Delta's alliance with Air France, and Swissair and Sabena's alliance with American.

⁴⁹ DOT First Report, at 2. See also DOT Second Report, at 6.

demand and are leading to procompetitive changes in the industry structure.”⁵⁰

Specifically, the Department confirmed that

[m]ultinational alliances have fueled enormous increases in connecting traffic, both in markets that have historically suffered from poor quality interline service and virtually no competitive benefits, but also by providing service alternatives in markets that already have the benefit of seamless service by other individual airlines They are also the only practical way to provide better service to thousands of passengers in long distance, low-density international markets This explains the growth in transnational alliances, as airlines around the world link their networks and produce and market improved service to an ever-wider array of city-pairs.⁵¹

In his remarks to the World Travel and Tourism Conference, former Assistant Secretary Hunnicutt described the Administration’s motivation in seeking greater aviation liberalization: “To increase competition in the aviation industry, the U.S. has worked with other countries to eliminate thousands of restrictions that had been placed on airline operations by our bilateral aviation agreements.”⁵² The Department has also strongly supported the liberalization of aviation bilaterals because “[e]nhanced competition . . . [makes] air travel affordable and accessible to many millions of new passengers.”⁵³ Assistant Secretary Hunnicutt pointed out that, “[s]ince 1992 traffic between the U.S. and foreign destinations has increased by 30 million passengers, service

⁵⁰ DOT press release, *DOT Report on Eve of Aviation Conference: Open Skies Agreements Have Resulted in Major Benefits for Consumers*, Dec. 3, 1999, at 1.

⁵¹ DOT First Report, at 2, 5; see also DOT Second Report, at 6 (illustrating the substantial U.S.-Europe traffic growth generated by immunized transatlantic alliances, including United’s).

⁵² Remarks of Assistant Secretary Hunnicutt before the World Travel and Tourism Annual Conference, March 8, 1999, at 2.

⁵³ Id.

by U.S. airlines in those markets has increased by 70,000 departures and consumers are now paying 17 percent less for commercial air [service] than in 1992.”⁵⁴

A key element of aviation liberalization is the ability afforded airlines to innovate and to develop creative initiatives for serving new markets. Immunized airline relationships, such as the expanded European Alliance proposed here, are at the forefront in transforming the structure of the airline industry into a truly global network industry. Through continued promotion and facilitation of these arrangements, the Department will further its international aviation policy objectives, leading to greater liberalization, competition and global connectivity, all to the benefit of consumers.

C. APPROVING AND EXTENDING ANTITRUST IMMUNITY FOR THE ALLIANCE EXPANSION AGREEMENT AND THE AMENDED COORDINATION AGREEMENT IS CONSISTENT WITH THE TERMS OF THE TRANSPORTATION CODE.

Under 49 U.S.C. § 41308, the Department may exempt an inter-carrier agreement, filed under 49 U.S.C. § 41309, from operation of the antitrust laws, to the extent necessary to allow the carriers to proceed with the transaction, provided that “the Department determines that the exemption is required in the public interest.”⁵⁵ The Department must determine, among other things, that the agreement is not adverse to the public interest, does not violate the terms of the statute, and does not substantially reduce

⁵⁴ Id.

⁵⁵ Order 2000-4-22, at 7.

or eliminate competition.⁵⁶ Approval of the Alliance Expansion Agreement and Amended Coordination Agreement and their exemption from the antitrust laws are fully consistent with these standards. Implementation of the agreements will promote, rather than reduce, competition, and will serve the public interest. The Agreements also will help advance U.S. international aviation and competition policy objectives. For these reasons, the Alliance Agreements should be approved and granted antitrust immunity.

1. Implementation of the Alliance Expansion Agreement and Amended Coordination Agreement with Antitrust Immunity Will Not Substantially Reduce or Eliminate Competition.

The Department generally relies on the type of merger analysis undertaken by the Department of Justice and Federal Trade Commission under Section 7 of the Clayton Act in deciding whether a proposed inter-carrier alliance is likely substantially to reduce or eliminate competition in any relevant market. In previous alliance cases, the Department has examined competition in a series of relevant markets in order to determine the possible effects of an alliance, including a worldwide market, U.S.-regional and country-pair markets, and individual city pairs where alliance partners operate overlapping non-stop service. See, e.g., American/Swissair/Sabena, Order 2000-4-22, at 11-14; Northwest/KLM/Alitalia, Order 99-11-20, at 10-13; United/Austrian Group/Lufthansa/SAS, Order 2001-1-19, at 9-11.

⁵⁶ Even if an agreement would substantially reduce or eliminate competition (which is not the case here), the Department could nevertheless approve the agreement if it determined that the agreement was necessary to meet a serious transportation need or to achieve important benefits that could not be met through reasonably available, less anticompetitive means. See Order 2000-4-22, at 7.

In so doing, the Department has consistently pointed out that, as is generally the case in merger analysis, simple concentration figures in individual city pairs (or any other relevant market) do not provide an adequate basis for predicting an alliance's impact on competition. As the Department has explained,

[i]ndividual airline nonstop city-pair markets usually have high levels of concentration, since only a few airlines serve most nonstop markets. A key consideration for determining whether . . . any . . . airline merger or joint venture . . . is likely to reduce competition is potential competition, *i.e.*, whether other airlines can enter the relevant markets in response to inadequate service or supra-competitive prices.

American/Lan Chile, Order 99-4-17, at 16; see also Delta/Austrian/Sabena/Swissair, Order 96-5-12, at 18; American/Canadian, Order 96-5-38, at 17. Moreover, assessment of the potential competitive effects of alliances should be undertaken from a variety of perspectives. Here, in addition to the worldwide aviation market, the relevant markets to be considered under applicable DOT precedent are the U.S.-Europe, U.S.-U.K., and individual city-pair markets.

- a. Approval of the Alliance Agreements Will Promote, Not Reduce, Competition in the Global Marketplace.

The globalization of air transportation has prompted the Department to consider global competition issues as part of its antitrust immunity analysis:

The rapid growth and development of global airline alliance networks requires an additional perspective on competitive impact -- the perspective of a worldwide aviation market in which travelers have multiple competing options for reaching destinations over multiple intermediate points. We have previously demonstrated that integrated alliances can offer a multitude of new online services to a vast array of city-pair markets, on a global basis.

American/Lan Chile, Order 99-4-17, at 15. Thus, the Department has concluded that “a significant element in [its] antitrust analysis . . . [must be] the extent to which facilitating airline integration (through antitrust immunity or otherwise) can enhance overall competitive conditions” in the global marketplace. Id.; see also Delta/Austrian/Sabena/Swissair, Order 96-5-26, at 19.

In the American/Lan Chile case, the Department explained that:

The development of global network systems has fundamentally changed how we must evaluate the competitive effects of actions such as the formation of . . . proposed alliance[s] in each relevant market. Greater emphasis must now be placed on network competition, both in terms of identifying which city pairs may be affected by the formation of an alliance, and also in terms of understanding how the development of worldwide traffic flows support competitive service to any given city

Order 99-4-17, at 16.

Extending antitrust immunity to the Alliance Agreements, thereby enabling bmi to engage in joint operations with United and become an integral part of the European Alliance, will enhance global competition. Today, virtually all major U.S. airlines participate in international alliances with one or more foreign airlines. In the thousands of city pairs that United and bmi will serve jointly, antitrust immunity will enable them to provide fully coordinated connections, marketing and services that will stimulate competition with other carriers and alliances beyond what they could do through simple interlining or code sharing.⁵⁷ These benefits should be most noticeable in the

⁵⁷ See DOT Second Report, at 6 (“alliances show strong traffic growth coincident with receipt of antitrust immunity, even for . . . alliances that previously had code-share relationships with their alliance partners”).

approximately 3,752 city pairs where the alliance will create a new on-line alternative. Ultimately, the globalization of airline alliances will increase the drive for complete liberalization, both across the transatlantic and in all of the markets that the alliances service. This network-to-network competition will produce the many benefits that form the basis of the Department's support for global liberalization.

b. The Proposed Alliance Will Not Reduce Competition on United States-Europe Routes.

The proposed United/bmi alliance and its integration with the European Alliance will not substantially reduce competition between the U.S. and Europe. Virtually all transatlantic competitors are participating in alliances, including Air France, Alitalia, American, British Airways, Virgin Atlantic,⁵⁸ Continental, Delta, Iberia, KLM, Northwest, Sabena, Swissair, Aer Lingus, Iberia, and TAP Air Portugal. The European Alliance competes with all of these carriers, among others. Exhibit JA-14 lists the nonstop transatlantic routes served by each of United, the Austrian Group, Lufthansa, SAS, and bmi. That exhibit demonstrates that there is no overlap between bmi's limited nonstop transatlantic services and those of the European Alliance.

Virtually all U.S. carriers providing transatlantic service operate to multiple destinations in Europe from one or more hubs in the United States. Similarly, most European-based airlines operating transatlantic flights serve multiple gateways in the United States from a hub in their homeland. In addition, through the proliferation of

⁵⁸ Continental and Virgin Atlantic have been authorized to code share on a reciprocal basis on numerous routes between London (Heathrow and Gatwick) and the United States. Order 97-11-19. Both Continental and Virgin Atlantic describe their relationship as an "alliance."

code-share alliances, most transatlantic competitors support their U.S.-Europe services with code-share relationships at each end. As a result, nearly every transatlantic city pair in which on-line service is available is served by numerous carriers and alliances with nonstop, one-stop, or on-line connecting service.

The Department underscored the vigorous level of U.S.-Europe competition in its January 2001 decision to grant immunity to the European Alliance: “The U.S.-Europe market is highly competitive. Eight U.S. airlines provide scheduled passenger service in this market from their hubs, either individually or in conjunction with an existing alliance. . . . The U.S.-Europe market is also served by more than thirty other foreign airlines, principally from hubs in their homelands.” Order 2001-1-19, at 10.

A survey of current airline schedule data reinforces the Department’s finding that the U.S.-Europe market is highly competitive. Based on the number of U.S.-Europe nonstop flights scheduled for the month of September 2001 as published in the OAG, United operates 8.8% of the seats available between the U.S. and Europe. See Exhibit JA-7. bmi operates just 0.5% of available seats -- fewer seats than 19 other transatlantic competitors (not including United, the Austrian Group, Lufthansa, and SAS). Adding bmi's 0.5% seat share to that of United would produce a combined, aggregate share of only 9.3%. Indeed, adding bmi's 0.5% share to the cumulative shares of United, the Austrian Group, Lufthansa and SAS -- 8.8%, 0.9%, 8%, and 1.8%, respectively -- produces an aggregate share of just 20%.

The transatlantic market continues to be intensely competitive, with no individual carrier holding more than a 13.2% seat share and numerous carriers holding shares above five percent. Even if the shares of individual carriers are grouped on the basis of code-sharing and alliance relationships, at least six alliance groups operate in this broadly defined market, with shares ranging from 11.4% in the case of Continental/Virgin Atlantic, to 27.1% for the carriers participating in the oneworld alliance. Against this background of intense competition and relative lack of concentration, the 20% share of available seats attributable to the Joint Applicants suggests no risk to competition.

Both individually and in alliance combinations, a significant number of vigorous transatlantic competitors can and will offer a strong competitive challenge to the proposed alliance. Given the relatively low combined seat shares attributable to the European Alliance, the number of actual and potential transatlantic competitors, and the ease of expansion by these competitors in nonstop U.S.-Europe city pairs served by United and its existing alliance partners, the addition of bmi to that alliance plainly will not give the Joint Applicants the ability to raise prices or restrict output for air services between the U.S. and Europe.

Including bmi in the European Alliance will also further expand the alliance's reach in behind- and beyond-gateway markets in Europe, providing more consumers access to the competitive benefits generated by vigorous alliance competition. When fully integrated, the Joint Applicants will be able to increase the efficiency of their U.S.-Europe network services, prompting other carriers to respond with more and better

service alternatives, further stimulating competition between the U.S. and Europe, all to the benefit of consumers.

c. **The Proposed Alliance Will Not Reduce Competition on United States-United Kingdom Routes.**

A monolithic market leader, British Airways, and its alliance partner, American Airlines, will be the largest operator in the U.S.-U.K. market, and in particular between the U.S. and London. At present, nine U.S. and U.K. carriers operate regularly scheduled nonstop passenger services between the U.S. and the U.K., with the British Airways/American alliance currently controlling more than 50% of all frequencies. British Airways and American operate more than 120 daily flights between the two countries, serving 23 U.S. gateway airports from London alone. In total, British Airways and American account for 50.6% of all seats in the U.S.-U.K. market. See Exhibit JA-8.

The second largest market share is that of Virgin Atlantic, which holds a 16.9% seat share, which, when combined with its transatlantic alliance partner, Continental's 5.7% seat share, produces a combined share in excess of 22%. United currently has 12.3% of all U.S.-U.K. seats, and bmi operates only 1.3%, giving a combined total of 13.5%. Other U.S. carriers that plan to increase their presence in the U.S.-U.K. market in the post-Bermuda II era include Delta, with an existing 4.1% share, and Northwest, with a 1.8% share. Id.

bmi, which currently operates very limited service between the U.K. and the U.S. (between Manchester and Chicago/Washington, D.C.), would not be able to enter the

London-U.S. market without its alliance with United. bmi's entry into that market, on the basis of its participation in an immunized alliance with United, will be entirely pro-competitive and will not involve any reduction in the number of actual competitors currently in the market. In the context of an open U.S.-U.K. bilateral regime, an immunized United/bmi alliance will pose no threat to competition. In fact, as discussed above, the United/bmi alliance will be pro-competitive because it will make possible bmi's entry into the London-U.S. market, at a time when a deregulated U.S.-U.K. bilateral aviation regime will finally allow new entry and enable existing competitors to expand their range of services. The link between United's U.S.-based network and bmi's network of regional U.K. and European services will provide a strong new competitive alternative to the proposed American/British Airways alliance.

In summary, an analysis of the proposed alliance and competitive conditions in the global, U.S.-Europe, and U.S.-U.K. markets demonstrates that the proposed integration of the Joint Applicants' services will provide significant pro-competitive benefits and pose no risk to competition.

d. **The Proposed Alliance Will Not Reduce Competition in Any City Pair.**

In examining a proposed alliance's likely effect on competition, the Department also has focused on city pairs where the applicants operate overlapping nonstop service to determine whether the granting of immunity was likely to reduce competition substantially. In this case, such an analysis is unnecessary because bmi operates no transatlantic flights from Heathrow and United does not offer its own aircraft services at

Manchester, the only airport from which bmi offers service to the United States.⁵⁹ Moreover, with open skies, bmi would not initiate independent service between Heathrow and the U.S. with its own aircraft due to the economic risk it would face in operating such service without United's marketing and financial support. As such, bmi is not today an actual competitor to United on any U.S.-U.K. city pair route; nor is it a likely potential entrant due to its small size, and lack of established market identity and U.S. distribution network. Therefore, grant of immunity will have no effect on actual or potential competition. However, even if bmi were thought to be a potential entrant in one of more of the U.S.-London city pairs United currently serves nonstop, there will be no adverse impact from granting the carriers immunity because all of these city pairs are already competitive and will remain so. See Exhibit JA-15.⁶⁰

For example, in addition to United, at least four other major carriers serve London-New York nonstop, while three others serve London-Chicago nonstop and two others serve London-Washington nonstop, including the American/British Airways alliance.⁶¹ United also faces indirect competition in each of these city pairs from all of the

⁵⁹ By contrast, prior antitrust immunity cases with respect to transatlantic alliances have involved the single national flag carriers of specific foreign countries -- all of which were airlines whose U.S. operations were already well established. bmi does not fall into that category.

⁶⁰ bmi has stated that following the introduction of a new air services agreement between the U.S. and the U.K. it would wish to operate, in cooperation with United, services between London Heathrow and Chicago, Washington D.C., Miami, Seattle, and Denver.

⁶¹ In evaluating the Washington and Chicago-London routes, it also is important to bear in mind that approval of, and antitrust immunity for, the United/bmi alliance is integral to bmi's decision to introduce its own services in those city pairs. For example, it is questionable whether bmi would prioritize entry into the London-Washington, D.C. market but for its ability to support such service with feed passengers to and from points beyond Washington via United's hub at Washington (IAD). Thus, approval of the joint

U.S. carriers currently authorized to serve London. As a result, United's share of capacity and traffic in each of these city pairs is relatively modest, particularly in comparison to British Airways and American; thus, the prospect of a United/bmi alliance poses no risk to competition in any city-pair market.⁶²

Unquestionably, the prospect of a new liberalized U.S.-U.K. bilateral regime offers the potential for an increase in the number of carriers operating service in specific U.S.-London city pairs, even if immunity is granted to the United/bmi alliance. For example, Continental and Delta both have expressed an interest in serving Heathrow from New York. Those carriers, however, are significantly larger than bmi and, unlike bmi, are well-established competitors in the transatlantic market in conjunction with their respective European partners, Virgin Atlantic and Air France, Alitalia and Czech Airlines. Thus, entry by these carriers onto the New York-Heathrow route is likely to have a far greater impact on competition than would independent entry by bmi.

Although liberalization in itself would make it theoretically possible for bmi to initiate Heathrow-U.S. service with its own aircraft, such service is unlikely to be economically viable for bmi without an alliance with United. With immunity, however, bmi will be able to integrate its existing Heathrow-based regional network of services with the much larger global networks of United and its European partners. With the

application and bmi's market entry should not be viewed as independent contingencies because, in fact, they are directly interrelated.

⁶² Irrespective of whether competition in London-U.S. city pairs is analyzed on a city- or airport-specific basis, the proposed alliance will not reduce competition in any city/airport pair because bmi does not operate direct London-U.S. service from any airport.

benefit of such immunized cooperation, bmi will be able to develop its presence in the market and plan for the future introduction of its own flights in specific London-U.S. city pairs.

For its part, United's existing U.S.-London nonstop services will benefit greatly from an immunized alliance with bmi. Such an alliance will enable United to develop Heathrow as a major European gateway and key connecting point for its global network of services. This will not only enhance United's competitiveness vis-à-vis incumbent carriers and potential new entrants in specific U.S.-London city pairs; it also will enable United to make more efficient use of its existing U.S.-London services. Traffic feed at Heathrow from the bmi network, as well as from the networks of the other European Alliance participants, will enable United immediately to make better use of its existing capacity, with a view to increasing its frequency of service and size of aircraft to accommodate the increased traffic that the five-carrier network will generate. Immunized cooperation among the five carriers also will ensure that passengers reap the full range of proven service and fare-related benefits that such cooperation generates.

In sum, an immunized United/bmi alliance and approval to integrate that alliance with the European Alliance will increase competition in U.S.-U.K. and U.S.-Europe city pairs, as the Joint Applicants will combine their respective networks to offer increased competition to other alliances and market incumbents, including British Airways, the incumbent market leader in the U.S.-U.K. market, and the proposed American/British Airways alliance.

2. Approving and Extending Antitrust Immunity to the Alliance Expansion Agreement Would Be in the Public Interest.

Approving and granting antitrust immunity to the Alliance Expansion Agreement between United and bmi will enable the carriers to integrate their route networks at London Heathrow, operate more efficiently, establish a more integrated air transport system of U.S.-U.K. and beyond services via London through better network coordination, achieve economies of scope and scale, and enhance competition with other alliances. These benefits will result in lower costs, enabling United and bmi to offer the traveling public a broader network of integrated services at a lower price. The carriers also will be able to increase efficiencies, reduce costs, and provide better service to the traveling and shipping public in the following ways:

a. Expanded Online Networks. With antitrust immunity, United and bmi will be better able to plan for the full coordination of services across their networks, linking the 250 cities United serves worldwide with the 36 cities that bmi serves, a global network of some 37,950 city/airport pairs. Full coordination will enable the carriers to develop a wider range of seamless connecting options and ease passengers' international journeys. An optimum network of on-line service options can only be accomplished on an efficient basis, however, if the carriers are free to coordinate their schedules, integrate their network planning, and coordinate pricing, inventory and yield management without antitrust risk.

b. Improved Service in Behind- and Beyond-Gateway City Pairs. To achieve the maximum integration of their networks, especially in behind- and beyond-gateway city pairs, United and bmi must have the ability to operate as if they were a single firm with a common financial objective. To achieve financial integration at this level, United and bmi must have the ability to engage in joint or coordinated marketing, sales, pricing and yield management. This cannot be accomplished without antitrust immunity.

An April 1995 GAO Report on airline alliances concluded that “[w]ith immunity, Northwest and KLM can develop formulas to set fares in all markets and, according to Northwest and KLM representatives, quickly enact fare reductions to attract traffic.”⁶³ The GAO further observed that “without immunity, airlines that are . . . competitors cannot discuss pricing issues and must develop prorated agreements in ‘arm’s length’ negotiations to divide revenues, a cumbersome process when thousands of city-pairs are involved.”⁶⁴ The GAO’s findings are confirmed by those of the more recent Brueckner 2000 study. (See supra, notes 38-40 and 43, and accompanying text.)

Antitrust immunity will make it easier for United and bmi to engage in coordinated pricing and to divide revenues on terms that enable them to integrate their networks, extend on-line service into more behind- and beyond-gateway city pairs, and offer lower fares than they otherwise could on an interline basis.

⁶³ International Aviation, GAO Report to Congressional Requesters (April 1995), at 29.

⁶⁴ Id.

c. Coordinated Networks. With immunity, the carriers will be able to coordinate their schedules and capacity to achieve a broader range of arrival and departure times, thereby giving passengers a broader choice of service alternatives, and better connections to behind- and beyond-gateway points. Without immunity, the coordination necessary to achieve such service improvements would expose the carriers to unacceptable antitrust risks.

d. Wider Availability of Discount Fares. Without immunity, United and bmi would have to price their services independently, with each carrier seeking to maximize its individual revenues. With immunity, the carriers could jointly price service over their combined networks with the objective of maximizing total network revenues. Cooperation will lead the carriers to expand the availability of discount fares, as they will have more seats to sell over a broader network, and consequently a greater need to utilize promotional pricing to fill seats that would otherwise go unsold. Moreover, heightened network-to-network competition will provide additional downward pressure on fares.

e. Inventory Control. With antitrust immunity, United and the bmi will be able to coordinate their seat inventories, and thereby achieve better capacity utilization, reducing costs for the benefit of the traveling and shipping public. Also, by coordinating yield management, the carriers should achieve an optimum mix of revenue, facilitating their ability to offer a larger number of marginally-priced, deep discount seats

while having to leave fewer seats unsold to ensure that space is available at the last minute for higher yield passengers.

f. Reduced Sales and Marketing Costs and Other Efficiencies.

With antitrust immunity, United and bmi will be able to integrate their sales forces and coordinate marketing strategies, reducing costs and increasing the efficiency of their sales and marketing efforts. Immunity will also expand the carriers' ability to explore joint purchasing opportunities to enhance their cost containment efforts.

3. A Grant of Antitrust Immunity for the Amended Coordination Agreement Would Be in the Public Interest.

The United/bmi alliance is only a part of the carriers' effort to secure a broader network of integrated services between the U.S. and Europe. In addition to bilateral coordination between bmi and United, bmi will become an integral part of the broader European Alliance. For that to happen, immunity is needed for the Amended Coordination Agreement. As with the other multi-party alliances that the Department has reviewed, including American/Swissair/Sabena, United/Austrian Group/Lufthansa/SAS, Delta/Austrian/Swissair/Sabena, and Northwest/KLM/Alitalia, the network benefits provided by multi-party alliances are comparable to those generated by bilateral alliances, but larger in scope and scale. A coordinated United/bmi/Austrian group/Lufthansa/SAS network will reach a broader range of consumers, offer greater efficiency gains, and promote more vigorous global network competition than could otherwise be obtained in the absence of antitrust immunity for the alliance.

4. **The Joint Applicants Will Not Implement the Alliance Expansion Agreement or the Amended Coordination Agreement Without Antitrust Immunity.**

The Department does not grant antitrust immunity simply upon a finding that an agreement does not violate antitrust laws. Rather, the Department will consider granting immunity if the parties “would not otherwise go forward without it” and the public interest requires the grant. American/Swissair/Sabena, Order 2000-4-22, at 7. In this case, the Joint Applicants have determined that they cannot and will not carry out the full range of joint activities in the London-U.S. and beyond markets contemplated by the Alliance Expansion Agreement and the Amended Coordination Agreement absent the protection from the threat of costly and burdensome private antitrust litigation afforded by antitrust immunity.

Among other things, the Agreements contemplate joint sales, schedule coordination, revenue pooling, and joint pricing decisions. Even though these arrangements will expand service and achieve merger-type efficiencies that cannot otherwise be achieved without antitrust immunity, the parties would be subject to a continuing risk of legal challenge by competitors. This threat would impede the expansion and integration contemplated under the Agreements and reduce the prospective benefits of the transactions. In view of this risk, the Joint Applicants will not proceed to achieve the full efficiency benefits possible under the Agreements without a grant of immunity.

IV. ADDITIONAL SHOWINGS

The Joint Applicants provide the following additional information typically requested by the Department when analyzing applications for antitrust immunity.

1. International Routes. The international routes flown by United, bmi, the Austrian Group, Lufthansa, and SAS are identified in the schedules attached as Exhibit JA-11. The Joint Applicants anticipate that they will continue serving these routes after their Alliance Agreements are approved, and they have no plans to change their services contingent upon approval being obtained. The carriers will continue to adjust their schedules depending on market conditions and competitive opportunities.
2. Code-Share Alliances. Exhibits JA-12 and JA-13 detail the current worldwide code-share arrangements of United and bmi.
3. Star Alliance. The Joint Applicants are all members of the Star Alliance, a cooperative marketing alliance whose members compete on a global network basis with other alliance groupings such as oneworld, SkyTeam and Wings. The Star Alliance was formed on May 14, 1997, and now includes United, the Austrian Group (Austrian, Lauda and Tyrolean), bmi, Lufthansa, SAS, Air Canada, Air New Zealand, Ansett International Limited, Ansett Australia, All Nippon Airways, Mexicana, Singapore Airlines, Thai Airways International and Varig Brazilian Airlines.

Through joint marketing, code sharing, coordinated schedule planning, and other operational coordination, Star Alliance members, consistent with applicable laws, seek to expand their route networks, increase the demand for their services, and secure other

benefits such as frequent-flyer program enhancements, reciprocal lounge access, purchasing efficiencies, reduced global distribution costs, and, where possible, shared airport facilities. Star Alliance members work cooperatively to improve interline connections between the members' networks, primarily by improving the connections between their services at principal hubs to facilitate the exchange of passengers across the members' networks, increasing the utilization of the members' services, and offering passengers improved service to more destinations worldwide.

Star Alliance members also seek to coordinate operations, to the extent possible, in order to provide passengers a better, more seamless, and lower cost travel product. The members also use the "Star Alliance" mark as a means to distinguish their services in the marketplace and to enhance consumer loyalty.⁶⁵ The Joint Applicants plan to continue developing their code-share relationships with other Star Alliance member carriers.

4. United's U.S. Marketing Hub Airports. The U.S. and foreign airline services at each of the U.S. airports where United markets its services on the basis that the airport is a hub for United are detailed in Exhibit JA-18.

5. Significant Service and Equipment Changes. Upon approval of the Alliance Expansion Agreement, United and bmi intend to broaden and deepen their cooperation in the city pairs where they now offer on-line service through code sharing and to expand the number of such city pairs. They anticipate that this, in turn, will

⁶⁵ Individual Star Alliance members retain their separate corporate entities and maintain their own bilateral alliance agreements.

stimulate demand over their integrated networks, which will increase load factors and eventually lead to the acquisition of more aircraft than would be required without such integration. The timing of such acquisitions, however, cannot be presently anticipated and will depend on commercial and economic considerations at that time.

6. New Entry at U.K. Airports. With the exception of London's Heathrow and Gatwick airports, slots and facilities generally are readily available at the U.K.'s international airports to support new or increased services by U.S. carriers. For some considerable time, Heathrow has been, and continues to be, congested. Consequently, Heathrow operations are subject to slot and terminal infrastructure restrictions, including constraints on nighttime movements.

The slot allocation process at major U.K. airports, including Heathrow and Gatwick, is administered by Airports Coordination Limited, an independent company. Heathrow slots are allocated in accordance with applicable EU law, European Regulation EC 95/93. That Regulation establishes procedures whereby newly created slots, unused slots, and slots forfeited by any carrier during or at the end of a traffic season are placed in a slot pool. Fifty percent of slots placed in that pool are designated for allocation to "new entrant" carriers, which are defined as air carriers requesting slots at an airport on any day and holding, or having been allocated, fewer than four slots at that airport on that day. U.S. carriers meeting the above definition would qualify as "new entrant" carriers and would therefore find it easier to obtain slots than incumbent carriers at Heathrow.

Since the introduction of the new slot allocation procedures in 1993, more than 30 new entrants have commenced services from Heathrow.

The EC Regulation also would permit U.S. carriers to swap slots at Heathrow that are currently being used by their European partner airlines.⁶⁶ The regulations would also allow U.S. carriers to obtain slots from other incumbent Heathrow operators through similar slot swaps.

All of bmi's operations at Heathrow are at Terminal 1 ("T1"), which is predominately used for U.K. domestic services and international routes within Europe. The majority of longhaul services at Heathrow operate from Terminals 3 and 4. bmi has no longhaul services at Heathrow, but operates an exclusively narrow-bodied fleet⁶⁷ with an average of 38 departures per day on U.K. domestic services and 52 departures per day on international routes within Europe, serving 12 nonstop destinations.⁶⁸ This compares with British Airways' network at Heathrow, which extends to 80 nonstop destinations of which 37 are in Europe.⁶⁹

The introduction of wide-bodied aircraft at Heathrow by bmi would require access to different stands than those currently used by bmi at T1. Only 8 of 48 stands in

⁶⁶ For example, KLM's turboprop operations between Heathrow and Rotterdam/Eindhoven, which already operate from wide-bodied piers in Terminal 4, could be swapped to allow KLM's transatlantic joint venture partner, Northwest, to use the slots for U.S. services.

⁶⁷ See Exhibit JA-10. The two widebodied aircraft currently in service on bmi routes operate exclusively from Manchester Airport.

⁶⁸ All of bmi's services from London operate at Heathrow.

⁶⁹ Virgin Atlantic operates an international network of 22 routes from London, 14 of which operate from Heathrow.

T1 are capable of accommodating the wide-bodied Airbus A330 aircraft used by bmi, and their availability for use at the necessary times is limited. In addition, to offer new competitive transatlantic services, bmi would require the acquisition of a new and improved departure lounge, an arrivals lounge, more check-in desks, a premium-class check-in area, and concierge and valet drop off facilities in T1.

In addition to Heathrow, London enjoys substantial transatlantic and other international service at Gatwick. Daily services are offered at Gatwick to 24 U.S. gateways, which account for 30.8% of all U.K.-U.S. departures. See OAG, September 2001. Linked to central London by a 30-minute express train service, Gatwick is a major gateway for both local U.S.-London passengers and those connecting to and from other points in the U.K., Europe and beyond. None of the Joint Applicants serves Gatwick.

7. Impact on United's Revenue. The proposed alliance is an integral element in United's global network structure. United anticipates that expansion and development of its alliance with bmi will generate additional traffic and revenue, enhance United's operating efficiencies, and have a positive impact on United's system profitability.

8. Labor Issues. A grant of immunity for the Alliance Agreements will have a positive effect on job security, growth, and opportunity for employees of each of the Joint Applicants, as it will support the carriers' ability to extend their respective networks and offer efficient, competitive services.

9. Computer Reservations Systems. Consistent with Department precedent, the Joint Applicants request that the grant of antitrust immunity encompass the

presentation and sale of their services in computer reservations systems and the operation of their internal reservations systems.

10. Civil Reserve Air Fleet. Grant of this application will have no effect on United's commitments to the Civil Reserve Air Fleet.

11. bmi's CRS Booking Data. CRS booking data for bmi's top 50 city pairs involving a U.S. point for the twelve months ended July 2001 are provided in Exhibit JA-16.

12. Document Production. The Joint Applicants shortly will submit, under motions for confidential treatment, documents comparable to those submitted in recent antitrust immunity proceedings.

V. CONCLUSION

WHEREFORE, for the foregoing reasons, the Joint Applicants respectfully request that the Department approve, under 49 U.S.C. § 41309, and grant antitrust immunity for, under 49 U.S.C. § 41308, the United/bmi Alliance Expansion Agreement and the Amended Coordination Agreement among the Joint Applicants, enabling the Joint Applicants to broaden their cooperation, enhance the efficiency of their joint

services, and expand the competitive network benefits they provide to the traveling and shipping public.

Respectfully submitted,



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Dated: September 5, 2001

Index Of Exhibits to Joint Application

| <u>Number</u> | <u>Title</u> |
|----------------------|---|
| Exhibit JA-1 | The Alliance Expansion Agreement by and between bmi and United Air Lines, Inc. entered into on September 5, 2001 |
| Exhibit JA-2 | The bmi/United Marketing Cooperation Agreement entered into on November 8, 1999 |
| Exhibit JA-3 | The bmi/United Airlines Code Share and Regulatory Cooperation Agreement entered into on March 15, 2000, and Amendment No. 1 to that Agreement, dated January 16, 2001 |
| Exhibit JA-4 | Amendment No. 2 to the Coordination Agreement entered into on September 5, 2000 |
| Exhibit JA-5 | The Coordination Agreement entered into on August 9, 1996, by United, Lufthansa and SAS |
| Exhibit JA-6 | United/bmi Code Share Services |
| Exhibit JA-7 | U.S.-Europe Seat Share |
| Exhibit JA-8 | U.S.-U.K. Seat Share |
| Exhibit JA-9 | U.S.-U.K. Passenger Traffic Share |
| Exhibit JA-10 | bmi's Aircraft Fleet |
| Exhibit JA-11 | Timetables of United, bmi, Austrian, Lauda, Lufthansa and SAS |
| Exhibit JA-12 | United's Code-Share Arrangements |
| Exhibit JA-13 | bmi's Code-Share Arrangements |
| Exhibit JA-14 | Joint Applicants' Nonstop Transatlantic Operations |
| Exhibit JA-15 | Competitive Analysis of United's Nonstop United States-London City-Pair Routes |

| <u>Number</u> | <u>Title</u> |
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| Exhibit JA-16 | Top 50 Origin & Destination markets to and from the United States for bmi |
| Exhibit JA-17 | bmi Is Comparable in Size to Other Smaller European Airlines |
| Exhibit JA-18 | Carriers Operating Scheduled International Passenger Service at United's Domestic Marketing Hubs |

**ALLIANCE EXPANSION
AGREEMENT**

by and between

**BRITISH MIDLAND AIRWAYS
LIMITED**

and

UNITED AIR LINES, INC.

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THIS ALLIANCE EXPANSION AGREEMENT ("EXPANSION AGREEMENT") is made and entered into on September 5, 2001 ("the Effective Date") by and between:

British Midland Airways Limited (which, together with Affiliates it may have, shall be referred to as "bmi british midland"), a corporation organized and existing under the laws of the United Kingdom with its registered office at Donington Hall, Castle Donington, Derby DE74 2SB, England.

United Air Lines, Inc. (which, together with any Affiliates it may have, shall be referred to as "United"), a corporation organized and existing under the laws of the State of Delaware and having its principal executive office at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, USA.

In this Expansion Agreement, bmi british midland and United may each be individually referred to as a "Party" and may be collectively referred to as the "Parties".

WHEREAS, pursuant to the Marketing Cooperation Agreement concluded between the Parties as of November 8, 1999, and the Code Share and Regulatory Cooperation Agreement concluded between the Parties as of March 15, 2000, as amended on January 16, 2001 ("the Marketing and Code Share Agreements"), the Parties have operated an alliance based on limited cooperation which has created benefits for their respective shareholders and the travelling and shipping public; and

WHEREAS, the Parties now seek to enhance their alliance and expand it to all areas of the world served by either Party, whereby the cooperation between the Parties will be generally broadened and deepened; and

WHEREAS, the enhanced alliance will expand the benefits afforded by the Parties to the travelling and shipping public, and will facilitate new benefits including integrated service products, increased cost efficiencies, increased time efficiencies, and improved service options; and

WHEREAS, expansion of the Parties' cooperation in various commercially important areas may require a revenue sharing approach for certain routes served by the Parties; and

WHEREAS, the Parties will seek immunity of this Agreement and the arrangements and activities specified or contemplated under it from U.S. antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309, without which the Parties will not proceed with expansion of their alliance as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants of the Parties herein contained, the Parties hereby agree:

ARTICLE 1: DEFINITIONS

Capitalized terms not otherwise defined herein, shall have the meanings ascribed to them in Schedule 1.

ARTICLE 2: SCOPE OF THE ALLIANCE

2.1 The bmi british midland/United Alliance

The Parties shall plan and operate their respective networks, facilities and operations to create an integrated global passenger and cargo air transport service ("bmi british midland/United Alliance"). The bmi british midland/United Alliance formed pursuant to this Expansion Agreement reinforces and expands upon the alliance formed pursuant to the Marketing and Code Share Agreements, which shall remain in full force and effect. The bmi british midland/United Alliance shall be implemented by the Parties pursuant and subject to the terms and conditions set out in the Marketing and Code Share Agreements and this Expansion Agreement. In case of any inconsistency between the Marketing and Code Share Agreements and this Expansion Agreement, this Expansion Agreement shall take precedence.

2.2 Areas of Expanded Cooperation

The Parties shall further integrate their activities in each of the following substantive areas as set forth in greater detail in this Expansion Agreement and in such Implementing Agreements as the Parties may conclude pursuant to Article 2.3 hereof:

- Route and Schedule Coordination
- Marketing, Advertising and Distribution
- Co-Branding and Joint Product Development
- Code Sharing
- Pricing, Inventory and Yield Management Coordination
- Revenue Sharing
- Joint Procurement
- Support Services
- Cargo Services
- Information Systems
- Frequent Flyer Programs
- Financial Reporting
- Harmonization of Standards/Quality Assurance
- Technical Services/Maintenance
- Facilities

The Parties shall also explore and pursue other opportunities for operational efficiencies from joint utilization of either Party's services and facilities, whenever feasible.

2.3 Contractual Framework

This Expansion Agreement establishes the basic principles for expansion of the alliance already in operation pursuant to the Marketing and Code Share Agreements. The parties may hereafter enter into Implementing Agreements in order to define further and put into effect various details of the bmi british midland/United Alliance. Any such Implementing Agreement shall be based upon and be consistent with, and its provisions shall be interpreted by reference to, this Expansion Agreement, except as the Parties may otherwise expressly agree in any such Implementing Agreement.

2.4 Retention of Corporate Identity

2.4.1 The Parties shall remain independent Air Carriers and each Party shall retain its own corporate identity. Each Party shall remain an entirely separate corporate entity, and unless otherwise expressly provided in this Expansion Agreement, will retain its own independent decision making and managerial competence and authority in all matters. Each party shall be responsible for supervising its representatives on the Joint Alliance Committee ("Alliance Committee").

2.4.2 In operating air transportation services, each Party is and shall remain an independent contractor. Nothing in this Expansion Agreement is intended to or shall be construed to create a partnership or fiduciary relationship between the Parties or to authorize one Party to serve as the agent of the other, except as may be otherwise agreed. Except to the extent it is expressly so authorized in writing, neither Party, nor any of its Affiliates, has the authority to act for or bind the other or to incur any obligation on behalf of the other Party, or in the name of such Party or any of its Affiliates.

ARTICLE 3: ALLIANCE ADMINISTRATION

3.1 Administrative Structure For The Alliance

The bmi british midland/United Alliance shall be administered by a Joint Alliance Committee ("Alliance Committee") composed of representatives appointed by each of the Parties. The decisions of the Alliance Committee shall, provided they are properly within the scope of the functions and responsibilities allocated to the Alliance Committee by this

Expansion Agreement or an Implementing Agreement, be binding on the Parties. The Parties shall take all necessary steps to ensure that such decisions are implemented by their respective organizations.

3.2 The Alliance Committee

The Alliance Committee shall administer the implementation and operation of the bmi british midland/United Alliance in the substantive areas set forth in Article 2.2 hereof. In particular, unless instructed otherwise by the Parties acting jointly, the Alliance Committee shall be responsible for the following:

3.2.1 Alliance Coordination

The Alliance Committee shall be responsible for coordination of bmi british midland/United Alliance activities conducted by the Parties and for monitoring the application of this Expansion Agreement and of any Implementing Agreements.

3.2.2 Performance Monitoring

The Alliance Committee shall monitor the performance of the bmi british midland/United Alliance and identify further areas in which synergies can be achieved.

3.2.3 Quality Control

The Alliance Committee shall define standards and goals for bmi british midland/United Alliance services in the various operational areas, consistent with Article 4.13 hereof ("Harmonization of Standards and Quality Assurance") and shall monitor the performance of the Parties in achieving those defined standards and goals.

3.2.4 Further Improvements

The Alliance Committee shall seek to identify ways to improve the performance of the bmi british midland/United Alliance and, where appropriate, make specific recommendations to the Parties.

3.3 Commercial Decision Making

3.3.1 Each Party retains the right to make independent operational and business decisions. Nevertheless, the Parties will endeavor to cooperate regarding joint commercial efforts undertaken in connection with the bmi british midland/United Alliance and this Expansion Agreement. If, after being addressed by the Alliance Committee, there is a disagreement between the Parties concerning an operational or business opportunity within the Alliance Committee's area of responsibility ("Commercial Opportunity"), each Party shall be free to make its own independent business decision with regard to the subject matter of the Commercial Opportunity notwithstanding the existence of the bmi british midland/United Alliance.

3.3.2 Notwithstanding Article 9 hereof, under no circumstances shall any Commercial Opportunity be the subject of any dispute resolution procedure pursuant to Articles 9.2 and 9.3 or any other proceedings in any national court, arbitration tribunal, administrative body, or any other legal body, and each Party hereby:

- irrevocably undertakes not to commence, participate in, invite, invoke or otherwise assist in any such proceedings; and
- irrevocably and unconditionally waives any and all rights of any description whatsoever in respect of any such Commercial Opportunity, except for the right to preclude any proceedings in respect of any such Commercial Opportunity and to proceed unilaterally.

ARTICLE 4: PRINCIPLES FOR EXPANDED COOPERATION

4.1 Route and Schedule Coordination

The Parties shall coordinate route and schedule planning to the maximum feasible extent throughout their global route networks. The goals of their coordination shall generally be:

- **Maximizing Transport Options:** To offer the maximum number of travelling and shipping options of optimal quality to the public so that passengers and shippers are able to utilize the most efficient routings regardless of which Party is operating the flight.
- **Allocating Resources Efficiently:** To allocate and use the Parties' respective resources and capabilities, including, but not limited to, their fleets and airport slots and gates within the bmi british midland/United Alliance network, in the most efficient way, consistent with each Party's system-wide needs and regulatory constraints, and to minimize costs, such as delays and aircraft "dead time".
- **Enhancing Profitability:** To enhance their profitability through coordinated route and schedule planning, joint determination of optimal capacities, improved service, and increased efficiency.

4.2 Marketing, Advertising and Distribution

The Parties shall establish closer global cooperation and greater integration of their marketing, advertising and distribution networks, programs, and systems, to the extent they jointly deem commercially beneficial. Without limiting the range of other coordinated activities the Parties may undertake, the Parties agree as follows:

- **Marketing** - The Parties shall seek to provide for joint marketing of bmi british midland/United Alliance services, including joint marketing targeted to corporate, group, and government customers and joint marketing of the Parties' frequent flyer programs, which shall be coordinated as described in Article 4.11 hereto.

To facilitate marketing and sales integration, the Parties may jointly create a unified commissions schedule using a single commissions accounting system, common override agreements for retail accounts, corporate accounts, and consolidator and special accounts, tour and vacations programs, and standard contracts.

- **Advertising** - The Parties shall seek to provide for joint marketing of bmi british midland/United Alliance services. Such advertising shall seek to emphasize the geographic scope and breadth of services of the bmi british midland/United Alliance.
- **Distribution** - The Parties shall seek to establish in certain geographic areas a coordinated sales force, which shall conduct for the bmi british midland/United Alliance distribution activities, such as field sales, reservations, operating city ticket offices, and special services (e.g., those directed to travel agencies, corporations, governments, groups, and VIP customers). The Parties shall seek to represent each other in certain geographic areas through general sales agencies and similar means, and may coordinate their use of general sales agents and consolidators in certain geographical areas. The Parties shall also seek to consolidate selected sales administration and planning functions, create common sales goals and support activity plans, and develop and coordinate use of electronic products and distribution channels as described in Article 4.10 hereto.

4.3 Co-Branding and Joint Product Development

The Parties shall seek to co-brand existing products and to this end shall explore the creation of a joint logo and/or joint corporate markings. The Parties shall also seek to jointly develop co-branded products, including, but not limited to, interior design, decoration and cabin layout, in-flight entertainment amenities and services, and passenger ground services. The Parties shall also seek to share existing and future product and market research conducted by either Party and jointly undertake future product and market research. The Parties shall generally coordinate service offerings to ensure that onboard service throughout their respective networks is of a comparable high quality.

4.4 Code Sharing

In addition to the Code Sharing agreed under the Marketing and Code Share Agreements, each Party shall, to the extent permitted by applicable treaties, laws and regulations, give the other Party the opportunity to engage in Code Sharing on any or all nonstop scheduled passenger services for which it is the operating carrier between the United Kingdom and the United States and such other services as the Parties may jointly select from time to time.

4.5 Pricing, Inventory and Yield Management Coordination

The Parties shall consult and coordinate on pricing, inventory and yield management with respect to all services included in their respective networks. Without limiting the range of other coordinated activities the Parties may undertake, the Parties shall, to the extent they jointly deem commercially beneficial:

- jointly develop, coordinate and offer fare products, including corporate fares, net fares, and retail sale promotional fares that use and enhance the bmi british midland/United Alliance's global capabilities;
- jointly develop, coordinate, and prepare bids for group business and U.S. and U.K. government business utilizing the bmi british midland/United Alliance's global schedule;
- jointly develop and apply consistent uniform auxiliary service charges and collection policies (e.g., excess baggage, pets);
- harmonise methods and procedures concerning revenue management (e.g., passenger protection, dupe check, wait list priorities); and
- jointly develop inventory management allocations consistent with the principles set forth in Article 4.1 hereof.

4.6 Revenue Sharing

The Parties may share net revenues (less certain operating costs) received by either Party for scheduled passenger air transportation on certain routes subject to such additions or exceptions as the Parties may mutually determine from time to time. The selection of routes subject to revenue sharing, the definitions of gross and net revenue and operating costs, and the Parties' respective revenue allocations shall be determined in accordance with specifications and rules to be established jointly by the Parties. Revenue sharing shall be implemented as soon as practicable after these specifications and rules have been agreed. Until such time as these specifications and rules have been agreed, the existing prorate agreements between the parties, and any future replacement or modification thereof, shall remain in effect under the conditions and terms specified therein.

4.7 Joint Procurement

The Parties shall seek economically viable joint procurement opportunities with the overall objective of reducing costs. Generally, the Parties shall seek cost reductions through:

- obtaining lower prices for necessary goods and services through volume purchases, establishment of common specifications, and improved access to world pricing data. Goods and services that may be subject to joint procurement include but are not limited to: ground handling services, general goods and services, field and station supplies, catering, crew uniforms, information technology products and services, aircraft and equipment, fuel and maintenance;

- eliminating redundant purchasing activities in geographic areas where one Party has a superior presence and knowledge of that market; and
- cooperation between the existing purchasing organisations, the creation of dedicated joint procurement groups, and/or the establishment of single joint purchasing group.

4.8 Support Services

4.8.1 Passenger and Ramp Services

The Parties shall continue their cooperative efforts with respect to ground and in-flight passenger and ramp services as established in the Marketing and Code Share Agreements (including, for example, passenger processing, through check-in, transfers, shared lounge facilities, baggage handling, aircraft ground handling, and maintenance), and they shall seek to extend this cooperation to all airports served by the Parties. In third-country markets, the Parties shall seek to identify the most cost-effective means of meeting their combined needs.

4.8.2 Training

The Parties shall implement joint training of crews and other personnel to the extent commercially and operationally feasible.

4.8.3 Catering

The Parties shall explore joint purchasing opportunities for their catering operations and related services. They shall also seek to establish common specifications and requirements for food, beverage, and catering supplies and equipment to the extent commercially and operationally feasible.

4.9 Cargo Services

Without limiting the applicability of the other provisions of this Expansion Agreement to the Parties' cooperation in the area of cargo, the Parties shall seek to harmonise and integrate their cargo services in ways that will enable them to maximise the utilisation of their global route networks and resources including the joint development of express cargo products, joint usage of cargo facilities and terminals, ground handling, co-ordination of trucking and RFS services, and the harmonisation of standards for cargo products and services (e.g., joint ISO 9000 certification).

4.10 Information Systems

The Parties shall seek to coordinate or harmonise their information systems, including without limitation, inventory, yield management, reservations, ticketing, distribution and other operational systems. To this end, the Parties shall consider implementation of the following consistent with the needs of the Parties and the bmi british midland/United Alliance:

- Joint development and coordinated utilisation of new information technologies to facilitate compatible ticketing systems and products (such as electronic ticketing, Smart Cards, and Chip Cards), distribution channels (such as on-line networks), flight planning, accounting, maintenance, and such other systems and functions as the Parties may identify from time to time.
- Consolidation and/or coordination of existing information systems, resources and functions, such as voice and data networks, reservations networks, business resumption plans, backup site support, help desk support, system installation and maintenance, software distribution and licensing, LAN administration, and information systems business and technical skills.

The ultimate goal of such harmonisation shall be the integration of all information technology systems to the fullest extent consistent with commercial integration in other areas of the bmi british midland/United Alliance. The implementation shall be driven by the business needs for integrated information technology support. However, the Parties do not intend to coordinate the management of their respective interests in the CRS systems owned and operated by Galileo International Partnership.

4.11 Frequent Flyer Programs

The Parties shall expand coordination of their Frequent Flyer Programs, as set forth in Paragraph 4(B)(3) of the Code Share and Regulatory Cooperation Agreement dated March 15, 2000, as amended on January 16, 2001, so that passengers will be able to accrue and redeem mileage on either program for all flights throughout the Parties' respective air transportation networks. The Parties shall consider fuller coordination of their Frequent Flyer Programs.

4.12 Financial Reporting

To facilitate revenue sharing and to promote easier coordination of yield management, the Parties shall consider harmonizing their financial reporting practices, including revenue and cost accounting practices.

4.13 Harmonization of Standards & Quality Assurance

The Parties shall seek to harmonize their respective product standards, service levels and in-flight amenities. Pending such full harmonization, each Party shall in all respects afford customers of the other Party the same standard of service as it provides to its own customers.

4.14 Technical Services/Maintenance

The Parties shall explore the possibility of each Party providing to the other Party aircraft and ground equipment, technical and maintenance services at appropriate locations.

4.15 Facilities

The Parties shall seek to share facilities and services at airports served by the flights of both parties, especially Code Shared Flights, to the extent commercially and technically reasonable.

ARTICLE 5: IMPLEMENTATION

5.1 Implementation Plan

Subject to the conditions set forth in Article 7 hereof, the Parties intend to implement the bmi british midland/United Alliance as provided for in this Expansion Agreement commencing on the later of the first business day following the fulfilment of all of the conditions precedent contained in Paragraph 7.1 hereof or the first business day following the expiration of any regulatory restrictions on the timing of the activities contemplated in this Expansion Agreement (in either case, the "Implementation Date"). Nothing herein is intended to limit the Parties' ability to cooperate in the planning, promotion and sale of their air transportation services under the terms of the Marketing and Code Share Agreements, or as otherwise agreed, pending implementation of the bmi british midland/United Alliance to the extent consistent with all competition and other laws to which the parties may be subject.

5.2 Implementation Agreements

In order to create, develop, manage and maintain the bmi british midland/United Alliance, the parties understand that Implementing Agreements may be necessary. The Parties shall use all reasonable endeavours, to conclude any such Implementing Agreements as appropriate.

5.3 Regulatory

The Parties shall make a common approach to the U.S., the United Kingdom and other agreed relevant authorities for the purpose of obtaining all Regulatory Approvals relevant to the bmi british midland/United Alliance and the activities contemplated under this Agreement.

5.4 No Infringement

No Party shall be required by this Expansion Agreement under any circumstances to take any action which would infringe any statute, regulation or Regulatory Approval or the order of any authority or court having jurisdiction over such Party or over all or any of the transactions contemplated by this Expansion Agreement.

ARTICLE 6: ARRANGEMENTS WITH THIRD PARTY CARRIERS

6.1 Admission of Third Parties

The Parties will be open to opportunities for cooperation with other potential participants in the bmi british midland/United Alliance. Admission of third parties as additional

participants in the bmi british midland/United Alliance shall take place only by mutual consent of the Parties.

6.2 Alliances With Other Carriers

Each Party shall notify the other Party in advance and shall discuss with the other Party any Cooperative Agreement which it proposes to enter into with any third party Air Carrier, or any significant extension or amendment which it proposes to make to any existing Cooperative Agreement with any third party Air Carrier, following the Effective Date. In order to maximize synergies and enhance customer service, the Parties shall seek to have alliances with the same third party Air Carriers, where feasible.

6.3 Commuter Carriers

bmi british midland's regional connector/feeder carriers will be included under the terms of this Expansion Agreement, effective upon the Implementation Date. United shall use its best efforts to encourage its feeder network carriers to join the bmi british midland/United Alliance as expanded in accordance with this Expansion Agreement.

ARTICLE 7: CONDITIONS

7.1 Conditions Precedent

This Expansion Agreement shall not take effect until and unless the following Board and management Approvals and Regulatory Approvals have been achieved, or obtained, or waived:

7.1.1 Board and Management Approval

Final internal management approval and board of directors approval, as necessary, of this Expansion Agreement has been obtained by both Parties.

7.1.2 Regulatory Approvals

All Regulatory Approvals must have been obtained, including (without limitation) all requested approvals, authorizations, and clearances required from: (a) the United States Departments of Justice and Transportation, including the immunization of the Parties from liability under the antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309; (b) the European Commission; (c) UK Secretary of State for Trade and Industry and Office of Fair Trading; and (d) any other required Regulatory Approvals, for all activities provided for in this Expansion Agreement, subject to conditions, if any, that are acceptable to both Parties.

7.1.3 Adverse Actions

The absence of any governmental or legal actions that would have a material adverse effect on the implementation of this Expansion Agreement.

The Parties may jointly agree to waive in writing in whole or in part all or any of the conditions precedent set forth in Article 7.1 hereof.

7.2 Cooperation

The Parties shall cooperate fully and shall individually and collectively use all reasonable endeavours to fulfil or procure the fulfilment of the conditions set forth in Article 7.1 hereof and shall notify the other Party immediately upon the satisfaction of such conditions. In this connection, the Parties shall work together to secure any government and other Regulatory Approval as necessary to give effect to this Expansion Agreement, and each Party, at its own expense, at the commercially reasonable request of the other Party, shall execute all documents and do all acts and things as are necessary to achieve such Regulatory Approvals.

7.3 Termination for Non-Fulfilment of Conditions

7.3.1 In the event that a government or other Regulatory Approval is subject to conditions or if a court of competent jurisdiction determines that any provision in the Expansion Agreement is in breach of applicable statutory or regulatory provisions, then the Parties shall consult in good faith to determine whether this Expansion Agreement can be amended to affirmatively address such conditions or court determination without having a material adverse effect on the implementation of this Expansion Agreement. If the Parties concur that such is possible, then the Parties shall use their commercially reasonable best efforts to so amend this Expansion Agreement. The foregoing, however, shall in no way affect either Party's right to terminate this Extension Agreement pursuant to Article 7.3.2 or Article 8.

7.3.2 In the event of any of the matters set forth under Article 7.1 hereof not having been achieved or obtained (or waived by written consent of the Parties) on or before September 5, 2002, or such later date as may be agreed in writing between the Parties, either Party shall (provided it shall have complied with its obligations under Article 7.2 hereto) be entitled to terminate this Expansion Agreement upon written notice to the other Party.

7.4 Subsequent Approvals

The Parties shall cooperate fully and shall individually and collectively use all reasonable endeavours to procure any subsequent Regulatory or other Approvals that the Parties agree have become necessary.

ARTICLE 8: DURATION AND TERMINATION

8.1 Indefinite Term

The bmi british midland/United Alliance shall continue indefinitely unless terminated in accordance with Article 7.3 or the following provisions of this Article 8.

8.2 No Termination During Initial Term

Except as provided in Article 8.4 hereof, neither Party shall be entitled to terminate this Expansion Agreement during an initial term of two years following the Implementation Date ("Initial Term").

8.3 Termination Based on Commercial Opportunity

Notwithstanding each Party's right to terminate this Expansion Agreement as provided in Articles 8.4 and 8.5 hereof, each Party, following the expiration of the Initial Term, shall be entitled to terminate this Expansion Agreement, by serving six months' written notice on the other Party, provided that:

- 8.3.1 the reason for the termination is a failure to reach agreement on a Commercial Opportunity after reasonable effort to do so;
- 8.3.2 the Commercial Opportunity in question in the reasonable opinion of the terminating Party, concerns a fundamental, strategic, operational, or business decision relating to the bmi british midland/United Alliance or to the terminating Party's business or is one of a number of unresolved Commercial Opportunities which in the reasonable opinion of the terminating Party cumulatively render a continuation of the bmi british midland/United Alliance between the Parties undesirable or impractical for that Party;
- 8.3.3 the Parties' failure to resolve such Commercial Opportunity in the reasonable opinion of the terminating Party has created or is likely to create a fundamental adverse effect on the business, prospects or assets of the bmi british midland/United Alliance or of the terminating Party; and
- 8.3.4 the terminating Party has given prior written notice to the other Party that, in the event of the Parties failing to resolve the Commercial Opportunity, the terminating Party would consider termination of this Expansion Agreement pursuant to this Article 8.3.

8.4 Termination for Cause

Either Party may terminate this Expansion Agreement at any time with immediate effect by serving written notice on the other Party within four months of the terminating Party first becoming aware of the occurrence of any of the following events:

- 8.4.1 an Insolvency Event in respect of the other Party; or
- 8.4.2 a Change of Control in respect of the other Party; or
- 8.4.3 a Material Default which is not capable of remedy or which, if capable of remedy, is not remedied to the terminating Party's reasonable satisfaction

within thirty (30) days after that Party has given the other Party written notice requiring it to be remedied; or

8.4.4 after the implementation of this Expansion Agreement, (a) the withdrawal or termination of immunity from the antitrust laws of the United States; (b) the withdrawal or termination of approvals or authorizations by the European Commission; (c) the withdrawal or termination of approvals or authorizations by the United Kingdom Government; or (d) the imposition of conditions or limitations on Regulatory Approvals, actions by any court of competent jurisdiction, or changes in applicable law having a material adverse effect upon the bmi british midland/United Alliance or this Expansion Agreement.

8.5 Termination without Cause

At any time after the fourth anniversary of the Implementation Date, either Party shall be entitled to terminate this Expansion Agreement for any reason by serving upon the other Party not less than twelve (12) months notice in writing.

8.6 Effect of Termination

Termination of this Expansion Agreement shall be without prejudice to any rights or liabilities that may accrue under this Expansion Agreement prior to such termination.

8.7 Coordination with Termination of Marketing and Code Share Agreements

Termination of this Expansion Agreement by either Party shall automatically constitute and effectuate, contemporaneously therewith, a termination of the Marketing and Code Share Agreements, and termination of the Marketing and Code Share Agreements by either Party shall automatically constitute and effectuate, contemporaneously therewith, a termination of this Expansion Agreement.

ARTICLE 9: GOVERNING LAW AND CONTRACT DISPUTE RESOLUTION

9.1 Governing Law

This Expansion Agreement shall be governed by and construed in accordance with the laws of the State of New York, USA, without reference to the choice of law provisions thereof.

9.2 Dispute Resolution

The Alliance Committee shall attempt to resolve any disputes that arise concerning interpretation of this Expansion Agreement or the performance of either Party. The Alliance Committee shall meet within ten (10) days upon notice by either Party that a dispute exists. If the Alliance Committee cannot resolve any such dispute within seven (7) days following the first day of such meeting, the dispute shall be referred to the Parties, which shall meet personally or by telephone within five (5) days. If no resolution is reached within three (3) days following the first day of such meeting, either Party may refer the matter to arbitration as specified in Article 9.3 below.

9.3 Arbitration

After completing the procedure set forth in Article 9.2 above, either Party may refer any dispute concerning interpretation of this Expansion Agreement or performance of contractual obligations hereunder to arbitration. All such disputes shall be finally settled by arbitration. The arbitration shall be conducted in New York, New York in English in accordance with IATA Resolution 780, "Interline Traffic Agreement - Passengers, Article 9 - Arbitration".

ARTICLE 10: CONFIDENTIALITY

10.1 Limitation on Disclosure and Use of Information

Except as necessary in any proceeding to enforce any of the provisions of this Expansion Agreement, neither Party shall, without the prior consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):

- (i) this Expansion Agreement or any of the terms or conditions of this Expansion Agreement;
- (ii) any Implementing Agreement or the terms or conditions of any Implementing Agreement; or
- (iii) any confidential or proprietary information or data, in any form, received from and designated as such by the disclosing carrier, unless and to the extent that such Confidential Information consists of documents in the public domain.

10.2 Response to Legal Process

If either Party is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information obtained from the other Party, then the subpoenaed Party, before complying, shall immediately notify the other Party and take reasonable steps to afford that other Party a reasonable period of time to intervene and contest disclosure or production.

10.3 Action Upon Termination

Upon termination of this Expansion Agreement, all Confidential Information, including any copies thereof made by the receiving Party, must be returned to the disclosing Party or destroyed.

10.4 Exchanged Data

Neither Party shall use information or data provided by the other Party (whether or not designated confidential or proprietary) in connection with this Expansion Agreement except in fulfillment of its obligations hereunder.

10.5 Survival

This Article shall survive the expiration or termination of this Expansion Agreement.

ARTICLE 11: FORCE MAJEURE

Neither Party shall be liable for delays or failure in performance under this Expansion Agreement caused by acts of God, war, sabotage, strikes, labour disputes, work stoppage, fire, acts of government or any other event beyond the reasonable control of that Party.

ARTICLE 12: SEVERABILITY

In the event that any one or more of the provisions of this Expansion Agreement shall be determined to be invalid, unenforceable or illegal, such invalidity, illegality and unenforceability shall not affect any other provision of this Expansion Agreement, and the Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Expansion Agreement. In that event or if a Regulatory Approval is withdrawn or a Regulatory Approval that becomes necessary subsequent to the Effective Date is not granted, the Parties shall negotiate any appropriate adjustments to the terms of this Expansion Agreement so that the effects of such invalidity, illegality or unenforceability are shared fairly by the Parties. If the Parties are unable to negotiate such an adjustment within a reasonable period of time, such invalidity, illegality or unenforceability shall constitute a Material Default by both Parties if its effects are Material, entitling either Party to terminate in accordance with Article 8.4.3. If the effects of such invalidity, illegality or unenforceability are not Material, the invalid, illegal or unenforceable provision shall not affect any other provision of this Expansion Agreement, and the Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Expansion Agreement.

ARTICLE 13: HEADINGS

The headings contained in this Expansion Agreement are inserted purely as a matter of convenience and neither form an operative part of this Expansion Agreement nor are to be used in interpreting the meaning of this Expansion Agreement.

ARTICLE 14: GENERAL INDEMNIFICATION

Except as otherwise provided herein, each Party shall indemnify and hold harmless the other Party and the directors, officers, employees, Affiliates and agents of the other Party from all liabilities, damages, losses, claims, suits, judgements, costs, and expenses, including reasonable attorneys' fees and expenses, directly or indirectly, incurred by the other Party as the result of any third party claims that arise out of or in connection with the performance or failure of performance of the indemnifying Party's obligations hereunder. In addition, each Party shall indemnify and hold harmless the other Party, Affiliates and agents of the other Party from all liabilities, damages, losses, claims, suits, judgements, costs, and expenses, including reasonable attorneys fees and expenses, directly or indirectly incurred by the other Party as the result of any claims by third parties that arise out of or in connection with any products or services received from or supplied by the indemnifying Party or its Affiliates in connection

with this Expansion Agreement and/or the bmi british midland/United Alliance. This Article shall survive the expiration or termination of this Expansion Agreement.

ARTICLE 15: EXCLUSION OF CONSEQUENTIAL DAMAGES

NEITHER PARTY SHALL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION WITH THIS EXPANSION AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER, AND EACH PARTY HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER CARRIER REGARDING SUCH DAMAGES. THIS ARTICLE SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THIS EXPANSION AGREEMENT.

ARTICLE 16: NOTICES

Notices, demands, consents, approvals and any other communication required or permitted under this Expansion Agreement shall be in writing and given by personal delivery, first class airmail, or facsimile transmission to the Party to be served as follows:

For United:

United Air Lines, Inc.
P.O. Box (WMQVQ) 66100
Chicago, Illinois 60666
USA
Attn.: Vice President-Resource Planning
Fax: 1 847 700 2534

United Air Lines, Inc.
P. O. Box (WHQLD) 661 00
Chicago, Illinois 60666
USA
Attn.: General Counsel
Fax: 1 847 700 4386

For bmi british midland:

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anothony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

Either Party may change the above names and/or addresses used for it after providing ten (10) days notice to the other Party. Notices shall be deemed given upon actual delivery or seven (7) days following posting. Notices given by facsimile shall be deemed given when sent if transmitted before 4:30 p.m. local time of the addressee, but shall be deemed given on the next day, if so transmitted after 4:30 p.m. local time of the addressee.

ARTICLE 17: NO THIRD-PARTY BENEFICIARIES

This Expansion Agreement is for the benefit of the Parties and is not intended to confer any rights or benefits on any third party.

ARTICLE 18: ENTRY INTO ALLIANCE EXPANSION AGREEMENT

Each Party warrants that it is empowered to enter into this Expansion Agreement and has taken all necessary corporate action to enable it to do so and is not precluded from entering into this Expansion Agreement by its constituent documents or any other applicable agreement or instrument.

ARTICLE 19: AMENDMENTS

This Expansion Agreement may be modified only by a written instrument duly executed by an authorized officer of each party.

ARTICLE 20: COUNTERPARTS

This Expansion Agreement may be executed in one or more counterparts all of which taken together constitute one and the same instrument.

UNITED AIR LINES, INC.

BRITISH MIDLAND AIRWAYS LIMITED

By: 

By: _____

Name: MONTIFE BREWER

Name: _____

Title: Sr. VP - Planning

Title: _____

Date: September 5, 2001

Date: _____

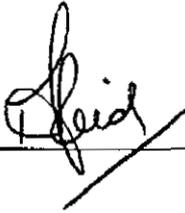
ARTICLE 20: COUNTERPARTS

This Expansion Agreement may be executed in one or more counterparts all of which taken together constitute one and the same instrument.

UNITED AIR LINES, INC.

BRITISH MIDLAND AIRWAYS LIMITED

By: _____

By: 

Name: _____

Name: Austin Reid

Title: _____

Title: Chief Executive Officer

Date: _____

Date: September 5th 2001

SCHEDULE 1

Definitions

"Affiliate" means in relation to a Party, any Air Carrier in which a Party owns an equity interest of fifty (50) percent or more, and such other business undertakings as the Alliance Committee may unanimously decide to include in this definition;

"Air Carrier" means (i) any person or entity licensed by a government authority to engage in direct air transportation or (ii) any persons or entities affiliated with such an entity, including, but not limited to, a parent, subsidiary, or holding company;

"and/or" means, in relation to two or more items linked by this conjunction, any of the items, or, both or all of the items;

"bmi british midland" means British Midland Airways Limited, a corporation organized and existing under the laws of the United Kingdom and having its principal executive office at Donington Hall, Castle Donington, Derby DE74 2SB, England;

"bmi british midland/United Alliance" means the alliance formed by the Parties on the basis of and as generally described in Article 2.1;

"Change of Control" means the occurrence of either of the following events:

- i) the direct or indirect beneficial ownership of twenty (20) percent or more of the voting stock of British Midland Airways Limited or UAL Corporation is acquired or becomes held by an Air Carrier that is not a direct or indirect shareholder of one of the Parties as of the Effective Date and that is not one of the Parties to this Expansion Agreement; or
- ii) the sale, mortgage, lease or other transfer in one or more transactions other than to a Party's Affiliate, not in the ordinary course of business, of assets constituting more than fifty (50) percent of the assets of a Party other than for the purpose of a bona fide and solvent consolidation, amalgamation or restructuring;

"Code Sharing" means the operation by one Air Carrier of flights on which seats or cargo capacity are offered for sale by another Air Carrier using that other Air Carrier's designator code alone or jointly with the operating carrier's designator code;

"Code Shared Flights" means flights on or for which Code Sharing takes place;

"Commercial Decision" means an operational or business decision within the Alliance Committee's area or responsibility, as described in Article 3.3;

"Commuter Carrier" means any regional or commuter Air Carrier that is, or subsequent to the Effective Date becomes, contractually entitled to operate flights under the Party's airline designator code, but does not include an Affiliate of that Party;

"Confidential Information" means either of the following:

- (i) confidential or proprietary information or data, in any form, received from and designated as such by the disclosing Party; or
- (ii) this Expansion Agreement or any of the terms or conditions of this Expansion Agreement;

"Cooperative Agreement" means any Code Sharing agreement, alliance agreement, or other agreement between Air Carriers for broad commercial cooperation similar to the cooperation contemplated herein, but not including special prorate agreements;

"Expansion Agreement" means the instant agreement including all schedules annexed hereto;

"Frequent Flyer Program" means a program or scheme operated by or for one or more Air Carriers under which passengers may earn awards for free travel and other benefits;

"Implementation Date" has the meaning ascribed to it in Article 5.1;

"Implementing Agreement" means an agreement that may be concluded between the Parties after the date of and pursuant to this Expansion Agreement, which agreement is intended to define further the details of and put into effect the bmi british midland/United Alliance as provided in this Expansion Agreement;

"Initial Term" has the meaning ascribed to it in Article 8.2;

"Insolvency Event" means the occurrence of any of the following events or any analogous event, in relation to a Party, in any part of the world:

- (i) any distress, execution, sequestration or other process being levied or enforced upon or sued out against a Material part of its undertaking, property or assets or any proceeding in bankruptcy having been commenced, any of which is not discharged within sixty (60) days;
- (ii) it being unable to pay its debts generally;
- (iii) it having ceased or threatening to cease wholly or substantially to carry on its business, otherwise than for the purpose of a solvent reconstruction, amalgamation or restructuring;
- (iv) any encumbrancer taking possession of or a receiver, administrator or trustee being appointed over the whole or any Material part of its undertaking, property or assets; or

- (v) an order being made or resolution passed for its liquidation or winding up, otherwise than for the purpose of a solvent reconstruction or amalgamation, or restructuring;

"Joint Alliance Committee" or "Alliance Committee" means the operational alliance committee established pursuant to this Expansion Agreement and vested with responsibilities as set forth in Article 3.2 of the Expansion Agreement;

"Material", when used in relation to a Party (the "Referenced Party"), means such that, in the reasonable opinion of the terminating or enforcing Party (the "Invoking Party"), it does or would:

- (i) prevent the Referenced Party from performing its fundamental obligations under this Expansion Agreement; or
- (ii) substantially deprive the Invoking Party of the benefit of the performance by the Referenced Party of its obligations to the Invoking Party under this Expansion Agreement; or
- (iii) fundamentally and adversely affect the business, prospects, or assets of the bmi british midland/United Alliance or the Invoking Party;

and the expression "Materially" shall be interpreted accordingly;

"Material Default" means a failure by either Party in the performance or observance or any obligation set out in this Expansion Agreement or in any Implementing Agreement that is Material;

"Party" means bmi british midland or United;

"Regulatory Approval" means any consent, ruling, approval, authorization, license, confirmation, exemption or waiver required or reasonably considered appropriate by either of the Parties in connection with the conclusion and/or implementation of the bmi british midland/United Alliance (except one whose absence has no Material adverse effect on the bmi british midland/United Alliance and the Parties);

"Subsequent Term" means the two year period commencing on the date the Initial Term concludes;

"United" means United Air Lines, Inc., a corporation organized and existing under the laws of the State of Delaware and having its principal executive offices at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, U.S.A.;

"UA Express" means those independent U.S. flag domestic carriers operating under the "United Express" service mark and trade name, pursuant to written agreement with UA; and

"United States" means all places in the fifty states comprising the United States; the District of Columbia and any territory, trust territory or possession of the United States, including Puerto Rico, Guam, American Samoa and the U.S. Virgin Islands.

**BRITISH MIDLAND/UNITED AIRLINES
MARKETING COOPERATION AGREEMENT**

November 8, 1999

This Agreement is made and entered into by and between UNITED AIR LINES, INC., with its principal place of

business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 (hereinafter "UA") and British

Midland Airways Limited, with its principal place of business at Donington Hall, Castle Donington, Derby, East

Midlands DE74 2SB (hereinafter "BD"), both Carriers collectively referred to as "Carriers".

1. INTRODUCTION

BD and UA are entering into this Agreement in order to increase each Carrier's opportunities to offer competitive and cost effective air transportation services between points in the United States and the United Kingdom and points beyond. Further, BD and UA wish to improve the quality of the interline air transportation and cargo services they now offer so as to increase the use of those services by the traveling public and shippers. This Agreement establishes binding obligations between the Carriers, expresses the Carriers intentions, and sets forth a framework that provides the basis to accomplish these goals through subsequent agreements and activities.

2. UNDERLYING OPERATIONAL CONCEPT

The Carriers shall use a phased approach to develop and implement parallel marketing and operational programs to create new, value added passenger and cargo services and cost efficiencies by taking advantage of each Carrier's inherent market strengths.

3. OBJECTIVES OF THE BD/UA RELATIONSHIP

Through development of the marketing and operational relationship contemplated by this Agreement and the BD/UA Code Share and Regulatory Cooperation Agreement, United Contract #145408 and subject to any and all necessary governmental approvals, BD and UA intend to:

- A. Establish and market code share operations between the United Kingdom and the United States and points beyond, providing travelers with new and enhanced service options and reduced connection time alternatives to increase use of the Carriers' services by both consumers and the travel trade and air cargo shippers. This Agreement is not intended to restrict either Carrier's rights to pursue, either independently or collectively, additional access between any points through either route acquisition or the normal government to government bilateral process
- B. Appoint one headquarters' level designee as the primary contact with the other party to manage and facilitate the processes contemplated by this agreement.

4. **PROGRAMS**

The Carriers shall develop enhanced joint service features, as well as other programs to support the objectives specified in this Agreement. The Attachments to this Agreement outline specific actions and responsibilities for implementing these programs. Each of the programs shall be incorporated into an existing BD/UA contract or a new contract, as appropriate. In summary, subject to any and all applicable governmental laws, rules and regulations, these programs are:

- A. **JOINT SERVICE FEATURES** (Attachment 1)
 - (1) **Fully Automated One-Stop Check-In**

British Midland and United shall develop this capability using IATCI, to provide passengers the convenience of checking in at selected UA, UA Express, or BD airport ticket counters and receiving seat assignments, boarding cards, and Frequent Flyer credit for their BD/UA flights as appropriate. One stop check-in also includes complete document verification and baggage check to final destination.

(2) **Improved Scheduling**

The Carriers shall review their schedules to maximize, as practicable, convenient connections to or from UA and BD at all common gateways, including but not limited to U.S. and United Kingdom gateways.

(3) **Inflight Product Coordination**

The Carriers shall evaluate the degree of coordination required, including announcements, on code share flights.

(4) **Seamless Transfer**

A. The Carriers shall use reasonable efforts to expedite the transfer of all passengers and baggage between themselves, as practicable, at all common gateways through development of a 55-minute connection time, including all reasonable communications necessary to facilitate this objective. The sharing of BD's additional expenses incurred under 2 above, in respect of the additional costs of delivering baggage to UA at London – Heathrow (LHR), will be agreed taking into account the respective benefits gained by each party.

B. BD will have no connection time with another transatlantic carrier less than the standard connect times at LHR (seventy-five minutes) and BD will not publish a connect time with any other carrier flying across the Atlantic to the United States that is less than the standard LHR connect time (seventy-five minutes).

(5) **Air Cargo Service**

The Carriers shall review cargo activities to investigate what opportunities may exist to offer competitive and cost effective air cargo services between points in the United States and United Kingdom and points beyond. Further, BD and UA shall use reasonable efforts to work to jointly improve the quality of air cargo transportation to the shipping community. The Carriers shall strive to sell the other Carrier, on a "second to on-line" basis, and in lieu of competitive off-line offerings.

(6) **Red Carpet Club/Diamond Club Exchange Privileges**

Each of the carriers will allow the other's members access to its facilities, according to the STAR Alliance minimum requirements guide, when traveling with a valid, same day, revenue ticket on the other carrier.

B. JOINT PROGRAM ELEMENTS

(1) **Prorates** (Attachment 2)

The Carriers intend to offer fares reflecting their connecting services and to agree on an acceptable prorate of interline fares and cargo rates to stimulate incremental traffic.

(2) **Group Procedures** (Attachment 2)

Groups shall be booked as they are currently booked.

(3) **Frequent Flyer** (Attachment 3)

The Carriers agree to participate in each other's Frequent Flyer programs. This participation shall be exclusive as it relates to UA's participation in the Frequent Flyer program of any other UK based/UK flag transportation company and BD's participation in the Frequent Flyer program of any US based/US flag transportation company, except for any existing relationships of either party as of the date herof.

C. DISTRIBUTION (Attachment 4)

(1) Display Improvement

To the extent permitted by applicable law and regulations, UA and BD shall provide reciprocal improvements in the display of their connecting flights in their respective internal reservation systems and direct access displays provided through computerized reservations systems.

(2) Preferential Selling

The Carriers shall implement procedures at their respective reservations sales offices to sell the other Carrier, on a "second to on-line" basis and in lieu of competitive off-line offerings in the agreed code share markets.

D. JOINT OPERATIONAL PROGRAMS (Attachment 5)

(1) Aircraft Security

The Carriers shall endeavor to agree upon a mutually satisfactory aircraft flight security program.

(2) Ground Handling

The Carriers shall review and implement, as agreed, any opportunities to provide ground handling services to each other.

E. REGULATORY COOPERATION (Attachment 6)

The Carriers shall work together to seek the underlying governmental and other approvals necessary to implement this marketing relationship.

5. TERM

This Agreement is effective as of signature, and shall continue thereafter for eight (8) years. For purposes of this Agreement, the Code Share and Regulatory Cooperation Agreement between the Carriers, United Contract #145408, is considered the Related Agreement. If the Related Agreement terminates or is not implemented for any reason whatsoever, then this Agreement shall automatically terminate contemporaneously therewith.

6. **COMPLIANCE WITH GOVERNMENT REQUIREMENTS**

The Carriers each hereby represents and warrants that all air transportation services performed by it pursuant to this Agreement or otherwise shall be conducted in full compliance with all applicable federal, state and local laws, statutes, orders, rules and regulations.

7. **EXCLUSIVITY**

This Agreement is non-exclusive and does not preclude either UA or BD from entering into or maintaining existing marketing relationships with other Carriers. Notwithstanding the preceding sentence, this agreement is exclusive as it relates to BD's participation in the frequent flyer program, or the lounge access program of another U.S. flag Carrier and it relates to UA's participation in the frequent flyer program, or the lounge access program of another UK flag Carrier, except for programs existing as of the date hereof.

8. **TRADEMARKS**

Neither Carrier shall use any trademark, trade name, logo, or service mark of the other without the prior written consent of the other.

9. **CONFIDENTIALITY**

- A. Except in any proceeding to enforce any of the provisions of this Agreement, neither party shall, without the prior written consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):
- (1) this Agreement or any of the terms or conditions of this Agreement; or
 - (2) any confidential or proprietary information or data, either oral or written, received from and designated as such by the disclosing Carrier.
- B. If either Carrier is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information, then that Carrier, before complying, shall immediately notify the non-disclosing Carrier and the non-disclosing Carrier shall have a reasonable period of time to intervene and contest disclosure or production.
- C. If a governmental authority requests either Carrier to produce or disclose to the authority this Agreement or any of the terms or conditions of this Agreement, such Carrier, at its option and after notifying the other Carrier, may produce or disclose the requested document or information.
- D. Upon termination of this Agreement, all Confidential Information, including any copies thereof made by the receiving party, must be returned to the disclosing Carrier.

10. FORCE MAJEURE

Neither Carrier shall be liable for delays or failure in performance under this Agreement caused by acts of God, war, strikes, labor disputes, work stoppage, fire, acts of government or any other cause, whether similar or dissimilar which is beyond the control of that Carrier.

11. NATURE OF RELATIONSHIP BETWEEN UA AND BD

The relationship of the Carriers hereto is that of independent contractors. Nothing in this Agreement is intended or shall be construed to create or establish any partnership or joint venture relationship between the Carriers.

12. TERMINATION FOR CAUSE

A. If either Carrier (the "Defaulting Party") becomes insolvent or is subject to liquidation, composition, reorganization or bankruptcy, if the other Carrier (the "Insecure Party") has evidence that the Defaulting Party is not paying its bills when due without just cause; if the Defaulting Party takes any step leading to its cessation as a going concern; or if the Defaulting Party either ceases or suspends operations for reasons other than a strike, then the Insecure Party may immediately terminate this Agreement on notice to the Defaulting Party unless the Defaulting Party immediately gives adequate assurance of the future performance of this Agreement by establishing an irrevocable letter of credit issued by an international bank acceptable to the Insecure Party, on terms and conditions acceptable to the Insecure Party, in an amount sufficient to cover all amounts potentially due from the Defaulting Party under this Agreement, which may be drawn upon by the Insecure Party if the Defaulting Party does not fulfill its obligations under this Agreement in a timely manner.

B. If either Carrier (the "Defaulting Party") fails to observe or perform any of its material obligations under this Agreement and if this failure continues for a period of thirty (30) days after written notice to the Defaulting Party thereof (except for any payments due, where the period to cure such non-payment shall be five [5] days after notice) then, without prejudice to any other rights or remedies the other party may have, the other Carrier may terminate this Agreement effective as of the 120th day after the date of the aforementioned written notice.

13. POST-TERMINATION RIGHTS

Exercise by either Carrier of its right to terminate under any provision of this Agreement shall not affect or impair its right to enforce its other rights or remedies under this Agreement. All obligations of each Carrier that have accrued before termination or that are of a continuing nature shall survive termination.

14. NON-WAIVER

Any previous waiver, forbearance, or course of dealing shall not affect the right of either Carrier to require strict performance of any provision of this Agreement.

15. GENERAL INDEMNIFICATION

The Carrier providing goods or services hereunder (the "Providing Carrier") agrees to indemnify and hold

harmless the other Carrier (the "Marketing Carrier"), its directors, officers, employees, agents, subcontractors, and affiliates (each an "Indemnitee") from and against any and all liabilities, claims, demands, suits, damages, and losses, including, without limitation, all reasonable attorneys' fees, costs and expenses in connection therewith or incident thereto (including, without limitation, attorneys' fees incurred by the Marketing Carrier in establishing its right to indemnification hereunder) (collectively referred to in this Article as "Claims") of third parties for death or personal injury to any person or persons whomsoever (including, without limitation, the Providing Carrier's employees, but excluding the Marketing Carrier's employees) and for loss of, damage to, destruction of, any property whatsoever (including, without limitation, any loss of use thereof), in any manner arising out of or in any way connected with goods or services furnished or to be furnished by the Providing Carrier under this Agreement, all whether or not arising in tort or occasioned in whole or in part by the negligence of the Marketing Carrier of any type or degree. The Providing Carrier shall, at the request of the Marketing Carrier, negotiate and defend any Claim brought against any Indemnitee or in which any Indemnitee is joined as a party defendant based upon any other matters for which the Providing Carrier has agreed to

indemnify each Indemnitee as provided above. The Providing Carrier's obligations under this Article will

survive the expiration or termination of this Agreement.

16. INSURANCE

A. Each Carrier shall procure and maintain (i) third party liability insurance for a minimum combined single limit (bodily injury/property damage) of U.S. \$1,000,000,000 (one billion U.S. dollars) for each occurrence and (ii) Hull All Risks and Hull War Risks insurance covering its fleet. Each Carrier shall be named as additional insured on the other Carrier's policies and the Providing Carrier's insurance policies shall waive their rights of subrogation against the other Carrier. The insurance policies shall be endorsed with severability of interest clauses. Each Carrier shall furnish to the other certificates of insurance evidencing the foregoing coverage prior to the commencement of this Agreement.

B. Each carrier shall procure at its own cost employer's liability insurance against the liabilities of

each respective Carrier to its employees in an amount not less than required by applicable law.

C. In the event of cancellation or adverse material change, the affected Carrier shall provide not less than thirty (30) days prior written notice to the other Carrier except that in the case of Hull War Risks insurance such period of notice shall be seven (7) days or such lesser period as may

be available in accordance with the applicable insurance policy requirements.

17. EXCLUSION OF CONSEQUENTIAL DAMAGES

NEITHER CARRIER SHALL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION

*WITH THIS AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER,
AND EACH CARRIER HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER
CARRIER REGARDING SUCH DAMAGES.*

18. NOTICES

Any notices required to be sent under this Agreement shall be sent by first class mail, postage prepaid, or any more expedient written means.

If to BD, notices shall be addressed as follows:

British Midland
Donington Hall
Castle Donington, Derby
East Midlands DE74
Attn: Company Secretary

If to UA, notices shall be addressed as follows:

United Air Lines, Inc.
P.O. Box 66100
Chicago, Illinois 60666
Attn: Senior Vice President - International

Notices sent via electronic means (e.g., telex, facsimile) shall be effective immediately if received prior to 5:00 p.m. local time of the recipient. All other notices shall be effective the first business day after receipt.

19. GOVERNING LAW AND JURISDICTION

This Agreement and any dispute arising under or in connection with this Agreement, including any action in tort, shall be governed and construed by the laws of the State of New York, USA, without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of Manhattan of the State of New York, U.S.A., shall

have non-exclusive jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

20. SEVERABILITY

Each provision of this Agreement shall be valid and enforced to the furthest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not effect the validity or enforceability of any other provision.

21. ASSIGNMENT

A. Neither Carrier may assign or otherwise transfer any of its rights or obligations under this Agreement to any third party without the prior written consent of the other.

B. Should for any reason whatsoever the ownership of either Carrier change such that another air carrier or affiliate of an air carrier acquires a ten percent (10%) or more ownership interest in either party, then within thirty (30) days of such occurrence either party may request renegotiation of this Agreement and, failing successful renegotiation within sixty (60) days of the request to renegotiate, either party may terminate this Agreement upon thirty (30) days notice to the other party. This provision shall not apply in respect to any acquisition of shares in BD or its parent company by Deutsche Lufthansa, A.G.

22. ENTIRE AGREEMENT

This Agreement, including any and all Attachments, constitutes the entire agreement and understanding of the Carriers relating to the subject matter hereof, and supersedes all prior agreements, whether oral or written, express or implied, between the Carriers concerning the subject matter hereof. This Agreement may be modified only by further written agreement signed by all of the Carriers hereto. In the event that

any terms herein conflict with the terms of any interline or other agreement between the Carriers, then the terms herein shall prevail, but shall not supplant any conflicting terms in the other agreement.

23. EXISTING OBLIGATIONS

UA represents and warrants that the terms of this Agreement do not violate any existing obligations or contracts of UA. BD represents and warrants that the terms of this Agreement do not violate any existing obligations of BD. Each Carrier shall defend, indemnify and hold the other harmless from and against any and all claims, demands or causes of action which are hereafter made or brought against it alleging any such violation.

24. CAPTIONS

The captions appearing in this Agreement have been inserted as a matter of convenience and in no way define, limit, or enlarge the scope of this Agreement or any of its provisions.

IN WITNESS WHEREOF, the Carriers hereto have by their duly authorized officers executed this Agreement as of the dates set forth below.

BRITISH MIDLAND AIRWAYS LTD.

By: 

Name: ALAN

Title: Senior Dir.

Date: 9/4/99

UNITED AIR LINES, INC.

By: 

Name: MONTE DREWER

Title:

Date: _____

ATTACHMENT 1

JOINT SERVICE FEATURES

A. Automated One Stop Check-In

By the first day of operation of the UA/BD alliance, both Carriers shall have developed, tested, and implemented fully automated One-Stop Check-In. Services rendered shall include:

- Seat Assignments
- Boarding Cards
- Frequent Flyer Credit
- Baggage Check to final destination

for up to three segments under each Carrier's designator code, for a maximum of six (6) segments (five connecting points). Segments under the "UA" designator code may include flights operated by UA Express Carriers.

TO BE IMPLEMENTED ON DECEMBER 31, 1999 FOR THE CITY PAIRS AS SET FORTH ON ATTACHMENT 1, PARAGRAPH A AND B OF THE CODE SHARE AND REGULATORY COOPERATION AGREEMENT.

Action:

| | | |
|----|-------------|------------------------|
| BD | _____ | _____ |
| UA | Jay Shirman | HDQKAUA (847) 700-5984 |

B. Improved Connection Scheduling

- (1) Each Carrier shall complete a review of all practical BD/UA schedule improvement possibilities at all common gateways.
- (2) Each Carrier shall establish a plan for ongoing, regularly scheduled reviews to optimize future schedule changes by either party.

TO BE COMPLETED BY DECEMBER 31, 1999.

Action:

| | | |
|----|-------|-------|
| BD | _____ | _____ |
|----|-------|-------|

UA Tina Drzal

HDQLUA (847) 700-6039

C. Inflight Service Coordination

The Carriers shall establish a forum to exchange ideas and suggestions on Inflight Services to help provide consistency for the customer.

TO BE COMPLETED BY DECEMBER 31, 1999 FOR IMPLEMENTATION ON DECEMBER 31, 1999.

Action:

BD _____

UA Sara Dornacker

HDQSWUA (847) 700-4344

D. Seamless Transfer Service

The Carriers shall evaluate and develop proactive procedures and identify facilities to be used to ensure expeditious check-in and transfer of passengers and baggage between the respective services at all common gateways. Areas for review and coordination include:

- (1) Support for connecting passengers and baggage
- (2) Information and directional signage to assist customers
- (3) Security procedures as governmentally required

TO BE COMPLETED FOR IMPLEMENTATION BEGINNING ON DECEMBER 31, 1999.

Action:

BD _____

UA Bill Ward

HDQCSUA (847) 700 - 6291

E. Air Cargo Service

BD and UA shall review and implement, as agreed, programs including prorates, booking and inventory capabilities, and joint trade show participation.

**TO BE COMPLETED FOR IMPLEMENTATION BEGINNING ON DECEMBER 31,
1999.**

ATTACHMENT 2

PRORATES AND GROUP PROCEDURES

A. Prorates

On the basis of reciprocity and comity, BD and UA shall provide broader access to each other's system through the creation of a Special Prorate Agreement to support the overall program and to stimulate incremental traffic from UA to BD, and BD to UA. This shall include special reciprocal protection for BD or UA passengers on delayed, canceled or oversold flights.

**TO BE COMPLETED FOR IMPLEMENTATION, AS MUTUALLY AGREED,
EFFECTIVE DECEMBER 31, 1999.**

Action:

| | | |
|----|--------------|------------------------|
| BD | _____ | _____ |
| UA | Julie Huston | HDQNCUA (847) 700-4963 |

B. Group Procedures

Groups shall be booked as they are currently booked.

Contacts:

| | | |
|----|--------------|------------------------|
| BD | _____ | _____ |
| UA | Teri Hartwig | HDQRZUA (847) 700-5942 |

ATTACHMENT 3
JOINT PROMOTION

A. Frequent Flyer Program

BD and UA shall implement mutually beneficial programs to enhance BD/UA passenger loyalty including:

Handling of Frequent Flyer accrual information on BD/UA shared-code flights to provide consistency.

Accrual and redemption levels to be charged by each Carrier for travel by its Frequent Flyer members on code share sectors operated by the other.

IMPLEMENTATION PLAN, AS APPROPRIATE, TO BE COMPLETED FOR IMPLEMENTATION ON DECEMBER 31, 1999.

Action:

| | | |
|----|----------------|------------------------|
| BD | _____ | _____ |
| UA | Nancy Mountain | HDQDXUA (847) 700-2225 |

B. Communication Plan

Create a joint communication plan to promote, as mutually agreed, the new products and service enhancements to the commercial travel trade and media and employee groups at both Carriers.

TO BE COMPLETED FOR IMPLEMENTATION BEGINNING DECEMBER 31, 1999.

Action:

| | | |
|----|---------------|------------------------|
| BD | _____ | _____ |
| UA | Kurt Ebenhoch | HDQPRUA (847) 700-1745 |

ATTACHMENT 4

DISTRIBUTION/AUTOMATION

A. Display Improvement

To the extent permitted by applicable law and regulations, UA and BD connections shall receive preference in the Carrier specific display option or direct access programs either UA or BD has with any other computer reservation systems used by travel agents, corporate accounts, or any non-airline staff for the purpose of making airline reservations, or internal displays.

TO BE COMPLETED BY DECEMBER 31, 1999.

Action:

| | | |
|----|--------------|------------------------|
| BD | _____ | _____ |
| UA | George Tymes | HDQIMUA (847) 700-5667 |

B. Quality Control

BD and UA shall each use its best, commercially reasonable efforts to ensure that the other party's flights, connect points, fares, and rules both on-line and between BD/UA are included in each Carrier's respective host and affiliated CRS system data base and are eligible for display subject to system constraints and applicable laws and regulations.

TO BE COMPLETED BY DECEMBER 31, 1999.

Action:

| | | |
|----|--------------|------------------------|
| BD | _____ | _____ |
| UA | George Tymes | HDQIMUA (847) 700-5667 |

C. Functionality Enhancement

- (1) BD and UA shall each use its commercially reasonable efforts to ensure that the other's flights, connection routings, fares, and rules both on-line and between BD/UA are included in their host and affiliated CRS system data base and are eligible for display subject to system constraints and applicable laws and regulations.

TO BE COMPLETED BY DECEMBER 31, 1999

Action:

BD _____

UA Mike Beauchamp HDQIMUA (847) 700-

D. Preferential Selling/Reservation Sales

BD and UA shall implement programs and incentives to motivate key BD and UA reservations to reciprocally sell their code share products, on a "second to on-line" basis.

TO BE COMPLETED FOR IMPLEMENTATION BY DECEMBER 31, 1999.

Action:

BD _____

UA Teri Hartwig HDQUFUA (847) 700-5942

ATTACHMENT 5

FUTURE AREAS FOR COOPERATION/PRIMARY INTERFACE

1. Each Carrier shall evaluate the following areas to assess the benefits that might accrue from joint cooperation:
 - (1) Purchasing of third party services.
 - (2) Establishment of regularly scheduled joint product review sessions with key staff.
 - (3) Other areas for concentration on cost reductions.

2. **Product/Knowledge Transfer.** UA shall provide BD with the benefit of its experience and skills in relation to product development (including any proprietary third party products such as seats and inflight entertainment systems) at marginal cost. In particular, it is understood and agreed that BD requires network planning personnel for at least six months from commencement of this Agreement and will require certain pricing and revenue management expertise as appropriate.

3. **Information Technology.**
 - A. Subject to any restrictions imposed by licenses or other agreements with third parties, UA shall make available to BD without any license fee, royalty or other charge by UA, but otherwise subject to standard license restrictions including nondisclosure and prohibition against sublicense or other transfer of the products, solely for BD's own use or systems integrators in providing systems integration services solely to BD, any information technology software products developed or acquired or used by or owned by UA on or before the date of this Co-operation Agreement that relates to operation of an airline business. UA shall use reasonable efforts to assist BD of their systems integrators if requested by BD to enable BD to make use of any such UA software products. BD shall reimburse UA for its costs (without mark-up) in providing any such assistance. Any new information technology software products developed or acquired by UA after the date of this Co-operation Agreement shall be made available by UA to BD and shall be provided on the same terms and conditions as set forth in this Article 3A.
 - B. In the event of breach of this Agreement by BD, UA will no longer be bound to offer software to BD at cost and UA will have the option to revoke all applicable software licences eighteen months from the date of breach. In the event of breach of this Agreement by UA, UA will no longer be bound to offer software to BD at cost and UA will have the option to revoke all applicable software licences thirty-six months from the date of breach.
 - C. To the extent that BD leaves the STAR Alliance at year eight, having fulfilled all of its obligations and has not breached the Agreement, then both parties shall negotiate in good faith an orderly transition whereby at the end of year eight either BD will pay a normal economic rent for licences provided, or with two years notice the software will be returned to UA. No action will be taken which in any way prejudices the ability of BD to conduct its normal business.
 - D. Any implementation costs will be valued at marginal and opportunity cost.

Action:

BD _____

UA Mike Beauchamp HDQMIUA (847) 700-5735

**BRITISH MIDLAND/UNITED AIRLINES
CODE SHARE AND REGULATORY
COOPERATION AGREEMENT**

This Agreement is made and entered into by and between UNITED AIR LINES, INC., with its principal place of business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 ("UA") and British Midland Airways Limited., with its principal place of business at Donington Hall, Castle Donington, Derby, East Midlands DE74 2SB ("BD"), each or both parties individually or collectively referred to as "Carrier" or "Carriers" respectively.

1. INTRODUCTION

BD and UA are entering into this Agreement in order to increase each Carrier's opportunities to offer competitive and cost effective air transportation services between points in and beyond the United States and the United Kingdom. Further, BD and UA wish to improve the quality of the interline air transportation and cargo services they now offer so as to increase the use of those services by the traveling and shipping public. This Agreement establishes binding obligations between the Carriers, expresses the Carriers intentions, and sets forth a framework that provides the basis to accomplish these goals through subsequent agreements and activities.

2. UNDERLYING OPERATIONAL CONCEPT

The Carriers will use a phased approach to develop and implement parallel marketing and operational programs to create new, value added passenger and cargo services and cost efficiencies by taking advantage of each Carrier's inherent market strengths.

3. OBJECTIVES OF THE BD/UA RELATIONSHIP

Through development of the operational relationship contemplated by this Agreement, subject to any and all necessary governmental and regulatory approvals, BD and UA intend to implement Code Share operations as defined in Article 4A and further described in Attachment 1, Sections A and B.

This Agreement is not intended to restrict either Carrier's rights to pursue, either independently or collectively, additional access between any points through either route acquisition or the normal government to government bilateral process.

4. PROGRAMS

The Carriers will develop and implement specific programs to support the objectives defined by this Agreement. The Attachments to this Agreement outline specific actions and responsibilities for implementing these programs. Each of the programs may be incorporated into an existing BD/UA contract or a new contract, as appropriate. In summary, subject to any and all applicable governmental laws, rules and regulations, these programs are:

A. CODE SHARE

The Carriers intend to develop, in a phased approach, operations which include using each other's two-letter airline designator code on the following routes, as further specified in Attachments 1 and 1A ("Code Share"):

- From points within the U.S., via the U.S., and intermediate points to a point or points in and beyond the United Kingdom.

B. CODE SHARE EMERGENCY PROCEDURES

In the event of an incident involving a Code Share flight, both Carriers agree to implement the emergency procedures specified in Attachment 2.

C. REGULATORY COOPERATION

The Carriers will work together to secure the underlying governmental and other approvals necessary to implement this marketing relationship.

D. PRORATES

On the basis of reciprocity and comity, BD and UA will provide broader access to each other's system through a Special Prorate Agreement to support the overall program and to stimulate incremental traffic from BD to UA, and UA to BD. This will include special reciprocal protection for BD or UA passengers on delayed, canceled or oversold flights.

E. PREFERENTIAL SELLING

The Carriers will implement procedures at their respective reservations sales offices to sell the other Carrier, on a "second to on-line" basis and in lieu of competitive off-line offerings in the agreed Code Share markets.

F. SALES

With regard to Inventory Management for Code Share flights the Carriers acknowledge and agree that this Agreement does not provide for guaranteed block space reservations. Accordingly, neither UA nor BD is purchasing or guaranteeing the seats allocated to it by the other unless done by separate agreement. Rather, the seats are allocated only for purposes of inventory management. BD and UA shall each manage, market and sell its allocation of seats on the Code Share flights under its own respective airline designator code. The Carriers agree to communicate as necessary to facilitate such an arrangement.

5. TERM

This Agreement is effective as of signature, and will continue thereafter for eight (8) years.

6. COMPLIANCE WITH GOVERNMENT AND SAFETY REQUIREMENTS

- A.** The Carriers represent and warrant that all air transportation services performed by it pursuant to this Agreement or otherwise will be conducted in full compliance with all applicable federal, state and local laws, statutes, orders, rules; and regulations.
- B.** The Carrier that originates the customer travel (provides all boarding passes and checks the customer luggage to his final destination) will assure that the customer is properly documented for entry into the destination country and properly documented for any transit points enroute. Any fines, penalties, deportation and detention expenses resulting from violations of government entry or transit requirements, even for passengers that willfully engage in illegal entry tactics, shall be the sole responsibility of the Carrier that originates the customer travel and such Carrier shall be considered an Operating Carrier pursuant to Article 15, and shall indemnify the other Carrier.
- C.** BD represents and warrants that it has passed a safety review audit satisfactory to UA prior BD's execution of this Agreement and further warrants that it shall maintain compliance with the requirements of such audit. Any failure to maintain compliance shall immediately be brought to UA's attention along with corrective actions taken or a corrective action plan. Any non-compliance not promptly corrected to UA's satisfaction or repeated non-compliance shall be grounds for termination by UA without further liability, but with reservation of all other rights and remedies available to UA. Additional safety review audits may be required at UA's discretion and BD shall cooperate with all such audits.

8. **EXCLUSIVITY**

This Agreement is non-exclusive and does not preclude either UA or BD from entering into or maintaining existing marketing relationships, including Code Sharing, with other Carriers. Notwithstanding the preceding sentence, this Agreement is exclusive as it relates to each Carrier's participation in code sharing, on the flights described in Attachment I, except for flights originating or terminating at LHR, but BD's exclusivity with respect to this Article shall only pertain to U.S. based air carriers. This exclusivity shall not apply to arrangements in force as of the date of this agreement.

9. **TRADEMARKS**

Neither Carrier will use any trademark, trade name, logo, or service mark of the other without the prior written consent of the other.

10. **CONFIDENTIALITY**

A. Subject to Articles 9B and 9C, and except in any proceeding to enforce any of the provisions of this Agreement, neither party will, without the prior written consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):

- (1) this Agreement or any of the terms or conditions of this Agreement; or
- (2) any confidential or proprietary information or data, either oral or written, received from and designated as such by the disclosing Carrier.

B. If either Carrier is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information, then that Carrier, before complying, will immediately notify the non-disclosing Carrier and the non-disclosing Carrier shall have a reasonable period of time to intervene and contest disclosure or production.

C. If a governmental authority requests either Carrier to produce or disclose to the authority this Agreement or any of the terms or conditions of this Agreement, such Carrier, at its option and after notifying the other Carrier, may produce or disclose the requested document or information.

D. Upon termination of this Agreement, all Confidential Information, including any copies thereof made by the receiving party, must be returned to the disclosing Carrier.

11. **FORCE MAJEURE**

Neither Carrier will be liable for delays or failure in performance under this Agreement caused by acts of God, war, strikes, labor disputes, work stoppage, fire, acts of government or any other cause, whether similar or dissimilar, which is beyond the control of that Carrier.

12. **NATURE OF RELATIONSHIP BETWEEN BD AND UA**

The relationship of the Carriers hereto is that of independent contractors. Nothing in this Agreement is intended or shall be construed to create or establish any partnership or joint venture relationship between the Carriers.

13. **TERMINATION FOR CAUSE**

A. If either Carrier (the "Defaulting Party") becomes insolvent or is subject to liquidation, composition with creditors, reorganization or bankruptcy; if the other Carrier (the "Insecure Party") has evidence that the Defaulting Party is not paying its bills when due without just cause; if the Defaulting Party takes any step leading to its cessation as a going concern; or if the Defaulting Party either ceases or suspends operations for reasons other than a strike, then the Insecure Party may immediately terminate this Agreement on notice to the Defaulting Party unless the Defaulting Party immediately gives adequate assurance of the future performance of this Agreement by establishing an irrevocable letter of credit issued by a bank acceptable to the Insecure Party, on terms and conditions acceptable to the Insecure

Party, in an amount sufficient to cover all amounts potentially due from the Defaulting Party under this Agreement, which may be drawn upon by the Insecure Party if the Defaulting Party does not fulfill its obligations under this Agreement in a timely manner.

- B. If either Carrier (the "Defaulting Party") fails to observe or perform any of its material obligations under this Agreement and if this failure continues for a period of thirty (30) days after written notice to the Defaulting Party thereof (except for any payments due, where the period to cure such non-payment will be five [5] days after notice) then, without prejudice to any other rights or remedies the other party may have, the other Carrier may terminate this Agreement as of the expiration date of this notice period.

14. POST-TERMINATION RIGHTS

Exercise by either Carrier of its right to terminate under any provision of this Agreement will not affect or impair its right to enforce its other rights or remedies under this Agreement. All obligations of each Carrier that have accrued before termination or that are of a continuing nature will survive termination, including, without limitation, any confidentiality and indemnity provisions.

15. NON-WAIVER

Any previous waiver, forbearance, or course of dealing will not affect the right of either Carrier to require strict performance of any provision of this Agreement.

16. GENERAL INDEMNIFICATION

The Carrier operating the Code Share flight or providing goods or services hereunder (the "Operating Carrier") agrees to indemnify and hold harmless the other Carrier (the "Marketing Carrier"), its directors, officers, employees, agents, subcontractors, and affiliates (each an "Indemnitee") from and against any and all liabilities, claims, demands, suits, damages, and losses, including, without limitation, all reasonable attorneys' fees, costs and expenses in connection therewith or incident thereto (including, without limitation, attorneys' fees incurred by the Marketing Carrier in establishing its right to indemnification hereunder) (collectively referred to in this Article as "Claims") of third parties for death or personal injury to any person or persons whomsoever (including, without limitation, the Operating Carrier's employees, but excluding the Marketing Carrier's employees) and for loss of, damage to, destruction of, any property whatsoever (including, without limitation, any loss of use thereof), in any manner arising out of or in any way connected with goods or services furnished or to be furnished by the Operating Carrier under this Agreement, all whether or not arising in tort or occasioned in whole or in part by the negligence of the Marketing Carrier of any type or degree. The Operating Carrier shall, at the request of the Marketing Carrier, negotiate and defend any Claim brought against any Indemnitee or in which any Indemnitee is joined as a party defendant based upon any other matters for which the Operating Carrier has agreed to indemnify each Indemnitee as provided above. The Operating Carrier's obligations under this Article will survive the expiration or termination of this Agreement.

17. INSURANCE

- A. Each Carrier shall procure and maintain (i) third party liability insurance for a minimum combined single limit (bodily injury/property damage) of U.S. 1,000,000,000 (one billion U.S. dollars) for each occurrence and (ii) Hull All Risks and Hull War Risks insurance covering its fleet. Each Carrier shall be named as additional insured on the other Carrier's policies and the Operating Carrier's insurance policies shall waive their rights of subrogation against the other Carrier. The insurance policies shall be endorsed with severability of interest clauses. Each Carrier shall furnish to the other certificates of insurance evidencing the foregoing coverage prior to the commencement of this Agreement.

- B. Each Carrier shall procure at its own cost employer's liability insurance and worker's compensation (or equivalent) against the liabilities of each respective Carrier to its employees in an amount not less than required by applicable law.
- C. In the event of cancellation or adverse material change, the affected Carrier shall provide not less than thirty (30) days prior written notice to the other Carrier except that in the case of Hull War Risks insurance such period of notice shall be seven (7) days or such lesser period as may be available in accordance with the applicable insurance policy requirements.

18. EXCLUSION OF CONSEQUENTIAL DAMAGES

NEITHER CARRIER WILL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION WITH THIS AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER, AND EACH CARRIER HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER CARRIER REGARDING SUCH DAMAGES.

19. NOTICES

Any notices required to be sent under this Agreement will be sent by first class mail, postage prepaid, or any more expedient written means.

If to BD, notices will be addressed as follows:

British Midland Airways Ltd.
Donington Hall
Castle Donington
Derby
East Midlands DE74 2SB
Attn: Company Secretary

If to UA, notices will be addressed as follows:

United Air Lines, Inc.
P.O. Box 66100
Chicago, Illinois 60666
Attn: Vice President -- Alliances

Notices sent via electronic means (e.g., telex, facsimile) will be effective immediately if received prior to 5:00 p.m. local time of the recipient. All other notices will be effective the first business day after receipt.

20. GOVERNING LAW AND JURISDICTION

This Agreement and any dispute arising under or in connection with this Agreement, including any action in tort, will be governed and construed by the laws of the State of New York U.S.A., without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of Manhattan of the State of New York, U.S.A., shall have non-exclusive jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

21. **SEVERABILITY**

Each provision of this Agreement shall be valid and enforced to the furthest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.

22. **ASSIGNMENT AND CHANGE OF OWNERSHIP**

A. Neither Carrier may assign or otherwise transfer any of its rights or obligations under this Agreement to any third party without the prior written consent of the other.

B. Should for any reason whatsoever the ownership of either Carrier change such that another air carrier or affiliate of an air carrier acquires a ten percent (10%) or more ownership interest in either party, then within thirty (30) days of such occurrence either party may request renegotiation of this Agreement and, failing successful renegotiation within sixty (60) days of the request to renegotiate, either party may terminate this Agreement upon thirty (30) days notice to the other party. This provision shall not apply in respect to any acquisition of shares in BD or its parent company by Deutsche Lufthansa, A.G.

23. **ENTIRE AGREEMENT**

This Agreement, including any and all Attachments, constitutes the entire agreement and understanding of the Carriers relating to the subject matter hereof, and supersedes all prior agreements, whether oral or written, express or implied, between the Carriers concerning the subject matter hereof. In the event that any terms herein conflict with the terms of any interline or other agreement between the Carriers, then the terms herein shall prevail, but shall not supplant any conflicting terms in the other agreement. This Agreement may be modified only by further written agreement signed by all of the Carriers hereto.

24. **EXISTING OBLIGATIONS**

UA represents and warrants that the terms of this Agreement do not violate any existing obligations or contracts of UA. BD represents and warrants that the terms of this Agreement do not violate any existing obligations of BD. Each Carrier shall defend, indemnify and hold the other harmless from and against any and all claims, demands or causes of action which are hereafter made or brought against it alleging any such violation.

25. **CAPTIONS**

The captions appearing in this Agreement have been inserted as a matter of convenience and in no way define, limit, or enlarge the scope of this Agreement or any of its provisions.

IN WITNESS WHEREOF, the Carriers hereto have by their duly authorized officers executed this Agreement as of the dates set forth below.

BRITISH MIDLAND AIRWAYS LTD.

UNITED AIR LINES, INC.

By: _____

By: _____

Name: _____

Title: _____

Name: _____

Title: _____


_____

Arthur

MONTIE BREWER

Date: _____
Date: _____

ATTACHMENT 1

CODE SHARING

A. City pairs displayed as BD*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, BD shall display its BD designation code on selected flights, operated by UA:

BD*

UA Operated Flights Between and Beyond

ORD --

LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/SJU/PHX/STT/LAS/PDX

IAD --

LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/SJU/PHX/STT/LAS/PDX

LHR --

JFK/EWR/BOS/ORD/IAD/LAX/SFO

B. City pairs displayed as UA*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, UA shall display its UA designation code on selected flights, operated by BD:

UA*

BD Operated Flights Between and Beyond

LHR --

AMS/BFS/BRU/EDI/FRA/GLA/LBA/MAN/MME/NCE

EMA --

FRA/CDG/BRU/AMS

MAN --

EDI/GLA/ABZ/FRA/DUS

OPEN FOR SALE DATE WILL BE _____, 2000 WITH FIRST DAY OF OPERATION ON _____, 2000. (OPEN FOR SALE DATE WILL BE DETERMINED SUBJECT TO REGULATORY APPROVALS).

The city pairs listed in Sections A and B will be handled on a manual basis by the Carriers if necessary, as outlined in Attachment 1A. Upon mutual agreement and pending government approval, either party may implement additional code-share cities.

Action:

BD Iain Tunstall

EMATOBD

011-44-1332-854694

UA Mike Beauchamp HDQMIUA (847) 700-5735

C. Inventory Management

The Carriers shall establish mutually agreed inventory management procedures for Code Share flights, in accordance with the guidelines outlined in Article 4 of this agreement ("Programs"), and including for manually managed inventory allocations the areas for cooperation outlined in Attachment 1A.

TO BE COMPLETED BY DECEMBER 31, 1999

Action:

BD
UA Lissa Mach HDQIMUA (847) 700-6277

D. Code Share Schedule Operations

The Carriers will:

- (1) establish a dedicated flight number range for use by BD and UA for use on Code Share flights.
- (2) establish an automated transfer of flight schedule information via an industry standard SSIM which includes comment 10 and 50 records to identify the Code Share relationships. A "custom SSIM" from OA will be used in place of the OAG file to maintain BD's schedule in the Apollo and Galileo computer reservation systems.
- (3) establish a communications procedure to advise the other of passenger reaccommodation plans in the event of schedule changes involving a Code Share flight.

TO BE COMPLETED BY DECEMBER 31, 1999.

Action:

BD _____
UA Tina Drzal HDQRLUA (847) 700-5020

D. Interline Accounting

The Carriers shall establish all necessary accounting procedures, in accordance with applicable IATA or ACH guidelines, including sampling methodology, to facilitate settlement of all UA/BD interline transportation, including code share.

TO BE COMPLETED BY DECEMBER 31, 1999.

Action:

BD _____
UA Dave Schaefer HDQANUA (630) 250-3427

ATTACHMENT 1A

BUSINESS REQUIREMENTS CODE SHARE

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 - 2.2.3 Group Handling
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 - 2.5.4 Seat Reaccommodation
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1.0 OVERVIEW

The purpose of this Attachment 1A is to provide a method that will allow BD's code to be reflected on certain UA flights and UA's code to be reflected on certain BD flights. Each Carrier shall perform this procedures in a fully automated manner, or manually until a fully automated method can be implemented.

2.0 REQUIREMENTS

General Requirement

Support code share for the city pairs as set forth on Attachment 1, paragraph A.

2.1 Availability

The Carrier shall provide the capability to display the service as an on-line connection using the designated Carrier's code (UA or BD).

2.2 Booking/Ticketing/CRS Fees

2.2.1 Sell

The Carriers shall provide support for segment sell of the on-line connection by line number from availability.

The Carriers shall provide support for the manual sell of the connection using either the code share flight number or the base flight number.

The Carriers shall provide for any fees associated with either ticket handling fees or CRS fees related to transportation of a passenger to be paid, by segment, by the Operating Carrier. OA and UA will establish a process to ensure that all such fees are appropriately accounted for. The Operating Carrier will be responsible for CRS fees at the level of participation of the Marketing Carrier.

In this connection, the Marketing Carrier will be obligated to provide the Operating Carrier only the CRS vendor's invoice and the CRS vendor's generated microfiche or hard copy of bookings for flights of Operating Carrier, and the Operating Carrier must reimburse the Marketing Carrier based upon the data reflected in those documents without adjustment.

2.2.2 Disclaimer

The Carriers shall provide for a disclaimer to accompany a sell of a shared-code flight identifying the Carrier operating the flight. The disclaimer must be distributed to CRS's and to schedule dissemination services such as the Official Airline Guide (OAG).

2.2.3 Group Handling

Groups will be booked as they are currently booked.

2.2.4 Teletype (TTY)

Teletype processing will be handled for UA or BD designated flights as it is currently handled today.

The information will be updated within the PNR of the respective system automatically and will be passed with the PNR on the exchange of PNRs.

2.2.5 Customer Inquiries

Procedures will be established through the reservations groups to be able to identify where a PNR exists and be able to direct the customer appropriately.

2.3 Inventory Maintenance

2.3.1 Inventory Control

The operating Carrier will develop a method for inventory control on each Code Share flight to/from the designated cities and will maintain control of that inventory. The designated Carrier will create a pseudo flight with the appropriate inventory. The yield management groups of both Carriers will agree on the following:

- A method of managing inventory allocations on shared-code flights.
- Actual allocation of agreed number of seats by cabin.
- Close off and transfer of PNRs, at a minimum 24 hours prior to departure of shared-code flights.
- For manually managed inventory allocations, exchange of industry standard PNL's, at a maximum 72 hours prior to departure, and ADL's at a mutually agreed time prior to departure, of shared code flights.
- Class of service and class of service equivalency
- A communications procedure to allow ad hoc inventory changes and to ensure that unused inventory is released or transferred.

2.3.2 Link Sells

Allow a shared-code flight to be sold from an availability display provided to another Carrier.

2.3.3 Waitlist

Waitlists will be open at start up of the Code Share arrangement.

2.4 Through Check In

Provide the capability to through-check customers via the use of IATCI standards.

2.5 Schedule Maintenance

2.5.1 Schedule Dissemination

Each Carrier will establish an automated transfer of flight schedule information via an industry standard SSIM which includes comment 10 and 50 records to identify the Code Share relationships. A "custom SSIM" from BD will be used in place of the OAG file to maintain BD's schedule in the Apollo and Galileo computer reservation systems.

2.5.2 Passenger Reaccommodation

Reaccommodations will be worked through close coordination between the reservations groups of the two Carriers.

2.5.3 Flight Information

BD and UA will evaluate procedures for exchanging and updating FLIFO information in each other's systems. Procedures and responsibility will be determined and mutually agreed by the Carriers.

2.6 Accounting Systems

Accounting based on billing is currently handled on a manual basis for bank Air Lines flights and does not create any new issues. Any special prorates must be communicated to accounting to ensure proper billing.

2.8 Frequent Flyer

Procedures for providing automated accrual and redemption will be established by respective Frequent Flyer organizations.

3.0 Hardware

Each Carrier will provide and pay for installation and maintenance of computer equipment necessary for the other to support Code Share operations. This equipment may include, but is not limited to check-in terminals, boarding pass printers and bag tag printers. Any monthly charges associated with such equipment will be paid by the Carrier supplying said equipment.

Upon termination of Code Share operations, for any reason, the Carriers will return any equipment owned by the other party.

ATTACHMENT 2

CODE SHARE EMERGENCY PROCEDURES

In order to properly prepare and plan coordinated communications efforts between the Carriers in the event of an emergency, as defined below, involving a Code Share flight, both Carriers will (I) exchange and update the appropriate telephone numbers and SITA addresses of the operating Carrier to which the code sharing Carrier may refer customer/relative inquiries in the event of an emergency and (ii) discuss any other necessary coordinated emergency response procedures. Although each situation must be evaluated on its own merit, common sense must prevail as a guide for all parties to follow.

Definitions:

-Emergency

Any occurrence involving a Code Share flight that results in injury or death, or has the potential for injury or death to any person or the loss or damage or the potential for loss or damage to private, public, or Carrier property.

-Aircraft Accident

Any occurrence associated with the operation of an aircraft, which takes place between the time the captain has released the parking brake for pushback or taxi and has set the parking brake and all checklists are completed, in which any person who has boarded the aircraft with the intention of flight suffers death or serious injury or in which an aircraft receives substantial damage.

-Hijacking (Air Piracy)

Any seizure or exercise of control by force or violence, or threat of violence, and with wrongful intent of an aircraft in air commerce.

-Red Alert

The classification for a situation where a major problem exists that may result in an accident as defined above. Examples include a landing gear failure to extend, fire in flight, or other aircraft damage that will likely require outside agencies such as police, fire, ambulances, and physicians to respond.

Both Carriers agree to comply with the relevant requirements of government agencies having jurisdiction in respect of an Emergency, Aircraft Accident, Hijacking or Red Alert.

Appropriate UAL telephone numbers in the event of an emergency as described above:

UAL Shift Manager (24 Hours)

847 700-6295

(Phone)

847 700-2005

(FAX)

HDQOPUA

(SITA Address)

Appropriate BD telephone numbers in the event of an emergency as described above:

(Phone)

(FAX)

(SITA Address)

Any change to the above referenced phone numbers or contacts is to be communicated to the above referenced SITA addresses with a request for a confirming telex back to the originator to acknowledge receipt.

B. EMERGENCY PLAN

In addition to the aforementioned procedures, the Carriers will meet and endeavor to mutually agree on a detailed emergency plan.

TO BE COMPLETED BY DECEMBER 31, 1999

Action:

BD

UA Jim Konz

HDQCSUA

847-700-5133

145408

United Contract Nbr. 145048

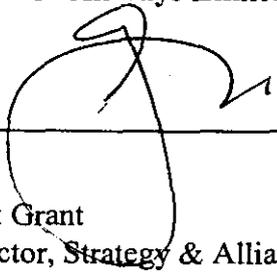
**Amendment to
Codeshare and Regulatory Co-operation Agreement
dated 15 March 2000**

**between
United Airlines Inc and British Midland Airways Limited**

1. This Amendment to the Codeshare and Regulatory Co-operation Agreement ("The Agreement") dated 15 March 2000, between United Airlines Inc ("UA") and British Midland Airways Limited ("BD") also referred to hereafter as the "Parties", details the mutual understanding and agreement of the Parties to expand their intended codeshare activities.
2. It is the intention of the Parties, subject to appropriate Governmental and regulatory approvals, to develop, in a phased approach, operations which include using each other's two-letter airline designator code on the routes as specified in Attachment 1 to the Agreement.
3. The Parties hereby agree that Attachment 1 to the Agreement should be amended by replacing sections "A" and "B" of the Attachment with the text at Annex A to this Amendment.
4. All other provisions, terms and conditions of the Agreement remain in full force and effect.
5. This Amendment comes into effect upon the date of the second signature.

**Agreed by and on behalf of British
Midland Airways Limited**

**Agreed by and on behalf of United Airlines
Inc.**



Alex Grant
Director, Strategy & Alliances



Montie Brewer
Vice President, Alliances

Date: 16/1/2007

Date:

Text of Amendment to Attachment 1 of the Agreement

A. City pairs to be displayed as BD*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, BD shall display its BD designation code on selected flights, operated by UA:

BD***UA Operated Flights Between and Beyond****ORD –**

ATL/BOS/BWI/CVG/DFW/DTW/DEN/IAH/IND/LAS/LAX/MIA/MSP/MSY/LGA/MCO/
PHX/PHL/PDX/SAN/SFO/SEA/TPA/IAD/AUS/SJC/BDL/MCI/SNA/SLC/TUS

BWI/IAD –

ATL/BOS/ORD/CVG/DFW/DTW/DEN/IAH/IND/LAS/LAX/MIA/MSP/MCY/LGA/MCO/
PHX/PHL/PDX/SAN/SFO/SEA/TPA/AUS/SJC/BDL/MCI/SNA/SLC/TUS

EWR –

LAX/SFO/ORD/DEN/OGG/SEA/MSY/IAD

JFK –

BOS/BWI/DCA/DEN/IAD/LAX/MSY/ORD/ORF/PHL/PIT/RIC/SEA/SFO

BOS –

DEN/IAD/JFK/LAX/ORD/SFO

LAX –

SAN/PDX/SEA/PHX/LAS/HNL/KOA/LIH

SFO –

SAN/PDX/SEA/PHX/LAS/HNL/KOA/LIH

LHR –

JFK/EWR/BOS/ORD/IAD/LAX/SFO/BWI

B. City pairs displayed as UA*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, UA shall display its UA designation code on selected flights, operated by BD:

UA***BD Operated Flights Between and Beyond****LHR –**

AMS/BFS/BRU/EDI/FRA/GLA/LBA/MAN/MME/NCE/CDG/PRG/BUD/WAW/CGN/
STR/DRS/HAJ/CPH/GVA/AGP/MAD/BCN/TXL/HEL/LIS/FAO/FCO/ARN

EMA –
FRA/CDG/AMS/BRU

MAN –
GLA/EDI/ABZ/FRA/DUS/IAD/ORD

TO THE EXTENT NOT ALREADY AUTHORIZED AND OPERATING, OPEN FOR SALE DATE FOR ALL UA* AND BD* CITY PARIS WILL BE APRIL 1, 2000 WITH FIRST DAY OF OPERATION ON JUNE 1, 2000. (OPEN FOR SALE DATE WILL BE DETERMINED SUBJECT TO REGULATORY APPROVALS).

The city pairs listed in Sections A and B will be handled on manual basis by the Carriers if necessary, as outlined in Attachment 1A. Upon mutual agreement and pending government approval, either party may implement additional codeshare cities.

Action:

| | | | |
|----|---------------|---------|--------------------------|
| BD | Iain Tunstall | EMATOBD | 011 – 44 – 1332 – 854694 |
| UA | Rolf Meyer | HDQMIUA | (847) 700 – 6160 |

AMENDMENT 2

To the

**COORDINATION AGREEMENT
BY AND AMONG THE AUSTRIAN GROUP,
DEUTSCHE LUFTHANSA A.G., SCANDINAVIAN AIRLINES SYSTEM,
AND UNITED AIR LINES, INC.**

This amendment, dated as of September 5, 2001 ("Amendment") amends the Coordination Agreement dated August 9, 1996, as subsequently amended on August 1, 2000 (the "Agreement"), by and among Österreichische Luftverkehrs AG ("OS"), Tyrolean Airways, Tiroler Luftfahrt ("VO"), Lauda Luftfahrt AG ("NG"),¹ Deutsche Lufthansa A.G. ("LH"), Scandinavian Airlines System ("SK"), and United Air Lines, Inc. ("UA").

Recitals

WHEREAS, the Austrian Group, LH, SK, and UA (collectively "the Existing Parties") are parties to the Agreement;

WHEREAS, UA and British Midland Airways Limited ("bmi british midland" or "the Additional Party"), have agreed to a series of measures intended to expand the benefits available to the traveling and shipping public from their existing cooperative arrangements and to establish a long-term alliance between them, linking their route networks and enabling them to market globally integrated air transportation services in competition with other carriers and carrier alliances while remaining independent companies ("the UA/bmi Alliance");

WHEREAS, bmi british midland and LH and SK have sought to establish an integrated network of intra-EEA air transport services based on a comprehensive set of long-term commercial, marketing and operational alliance relationships which seek to promote global integration of the carriers' networks, while maintaining their distinct corporate identities ("the bmi/LH/SK Alliance"), which alliance relationships have been notified to and approved by the European Commission;

WHEREAS, bmi british midland and the Austrian Group have sought to establish an integrated network of air transport services based on long-term commercial, marketing and operational alliance relationships which seek to promote global integration of the carriers' networks, while maintaining their distinct corporate identities ("the bmi/Austrian Group Alliance");

WHEREAS, to expand the benefits available to the traveling and shipping public from the UA/bmi Alliance, bmi/LH/SK Alliance and bmi/Austrian Group Alliance, and to facilitate further efficiency-enhancing coordination of their services on a global basis, the Existing Parties desire to amend the Agreement to add the Additional Party as a party and to include the UA/bmi Alliance, the bmi/LH/SK Alliance and the bmi/Austrian Group Alliance among the Alliances (capitalized terms used herein shall have the same meanings ascribed to such terms in the Agreement) being coordinated under the terms of the Agreement;

¹ VO is a wholly-owned subsidiary of OS. OS holds a 90 percent stake in NG. By a power of attorney dated March 31, 2001, VO and NG provided OS with the authority to negotiate and sign alliance agreements on their behalf. For purposes of this agreement, the three airlines will be referred to collectively as "the Austrian Group."

WHEREAS, the Existing Parties and the Additional Party desire that the Additional Party become a party to the Agreement; and

WHEREAS, the Parties intend to seek appropriate antitrust review, including immunity from U.S. Antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 without which the Parties will not proceed with the implementation of this Amendment as contemplated herein.

NOW, THEREFORE, in exchange for mutual consideration, the receipt and sufficiency of which is hereby acknowledged, the Existing Parties and Additional Party agree as follows:

1. Construction
The term Alliances wherever used in the Agreement is hereby amended to include the UA/bmi Alliance, the bmi/LH/SK Alliance and the bmi/Austrian Group Alliance in the event of any conflict between the terms in this Amendment and the terms in the Agreement, the terms in this Amendment shall prevail. Captions appearing in this Amendment have been inserted for convenience only and will not control, define, limit, enlarge, or affect the meaning of this Amendment, the Agreement, or any of their provisions.
2. Additional Parties
The Additional Party is hereby added as a party to the Agreement in the same manner as the Existing Parties and in all instances with the same effect as is intended for the Existing Parties. The Additional Party shall be considered individually a Party or collectively as Parties with the Existing Parties as applicable in the same manner and with the same effect as the Existing Parties. All terms and conditions applicable to the Existing Parties shall be read and interpreted as being equally applicable to the Additional Party. The Additional Party shall be liable for and shall comply with all terms and conditions of the Agreement as are specified for the Existing Parties.
3. Effect of Amendment
Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Austrian Group, UA, LH, or SK under the Agreement, and shall not alter, modify, amend or in any way affect the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Agreement shall mean the Agreement as amended hereby.
4. Implementation and Conditions
 - 4.1 The Parties shall make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining all regulatory approvals necessary to this Amendment.
 - 4.2 This Amendment shall take effect upon the receipt from the U.S. DOT of all requisite clearances, including the approval of the UA/bmi Alliance, and the immunization of the Existing Parties and the Additional Party from liability under the antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 for all activities provided for in this Amendment, subject to conditions, if any, that are acceptable to all Parties; provided that, if one or more Parties believes that additional clearances or approvals are necessary from a regulatory or governmental body other than the U.S. DOT and so informs the other Parties prior to the receipt of all requisite clearances from the U.S. DOT, the Amendment shall take effect on a date to be determined unanimously by the Parties.
 - 4.3 In the event that this Amendment has not taken effect by August 1, 2002, any Party may declare this Amendment null and void upon written notice to the other Parties.

5. Notices

Article 7 of the Agreement, Notices, is amended to add the following:

~~"For bmi british midland:~~

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anthony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

6. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.

7. Counterparts

This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines, Österreichische Luftverkehrs AG
for Austrian, Tyrolean and Lauda Air Luftfahrt AG

United Air Lines, Inc.


By: **W. PROCK-SCHNUR**
Title: **EVP Corporate Planning & Network Management**

By:
Title:

Deutsche Lufthansa A.G.

Deutsche Lufthansa A.G.

By:
Title:

By:
Title:

Scandinavian Airlines System

British Midland Airways Limited

By:
Title:

By:
Title:

5. Notices

Article 7 of the Agreement, Notices, is amended to add the following:

"For bmi british midland:

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anthony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

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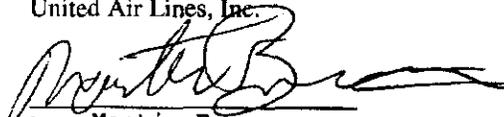
7. Counterparts

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines, Österreichische Luftverkehrs AG
for Austrian, Tyrolean and Lauda Air Luftfahrt AG

United Air Lines, Inc.



By:
Title:

By: Montie Brewer
Title: Sr. VP - Planning

Deutsche Lufthansa A.G.

Deutsche Lufthansa A.G.

By:
Title:

By:
Title:

Scandinavian Airlines System

British Midland Airways Limited

By:
Title:

By:
Title:

5. Notices

Article 7 of the Agreement. Notices, is amended to add the following:

"For bmi british midland:

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anthony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

6. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.

7. Counterparts

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines, Österreichische Luftverkehrs AG
for Austrian, Tyrolean and Lauda Air Luftfahrt AG

United Air Lines, Inc.

By:
Title:

By:
Title:

Deutsche Lufthansa A.G.

Deutsche Lufthansa A.G.

ppa P. Fahy

By:
Title:

s.v. Jernath

By:
Title:

Scandinavian Airlines System

British Midland Airways Limited

By:
Title:

By:
Title:

5. Notices

Article 7 of the Agreement, Notices, is amended to add the following:

"For bmi british midland:

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anthony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

6. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.

7. Counterparts

This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines, Österreichische Luftverkehrs AG
for Austrian, Tyrolean and Lauda Air Luftfahrt AG

United Air Lines, Inc.

By:
Title:

By:
Title:

Deutsche Lufthansa A.G.

Deutsche Lufthansa A.G.

By:
Title:

By:
Title:

Scandinavian Airlines System

British Midland Airways Limited



By:
Title: VP & General Counsel

By:
Title:

5. Notices

Article 7 of the Agreement, Notices, is amended to add the following:

"For bmi british midland:

Timothy Bye
Company Secretary and Group Legal Director
British Midland Airways Limited
Donington Hall, Castle Donington
Derby, England DE74 2CB

With a copy to:

Anthony A. Davis
Director, Industry and Government Relations
British Midland Airways Limited
6 Adam Street
London, England W6 7JQ

6. Governing Law and Jurisdiction

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines, Österreichische Luftverkehrs AG
for Austrian, Tyrolean and Lauda Air Luftfahrt AG

United Air Lines, Inc.

By:
Title:

By:
Title:

Deutsche Lufthansa A.G.

Deutsche Lufthansa A.G.

By:
Title:

By:
Title:

Scandinavian Airlines System

British Midland Airways Limited

By:
Title:

By: *[Signature]*
Title: *And in Aid
Chief Executive Officer*

COORDINATION AGREEMENT

This Coordination Agreement dated as of August 9, 1996 (the "Coordination Agreement") is made and entered into by and among

Deutsche Lufthansa, A.G., a corporation formed under the laws of Germany with its principal place of business in Cologne, Germany, and its subsidiaries, including Lufthansa Cargo, A.G. (collectively, "LH");

Scandinavian Airlines System, a consortium formed under the laws of Denmark, Norway and Sweden, with its principal place of business in Stockholm, Sweden, and its subsidiaries and its affiliate SAS Commuter (collectively, "SAS"); and

United Air Lines, Inc., a corporation formed under the laws of Delaware with its principal place of business in Elk Grove Township, Illinois ("UA").

In this Coordination Agreement, LH, SAS and UA may each be individually referred to as "a Party" and may be collectively referred to as "the Parties."

WITNESSETH

WHEREAS, UA and LH, beginning in 1993, have agreed to a series of measures intended to establish a long-term alliance between them, linking their route networks and enabling them to market globally integrated air transportation services in competition with other carriers and carrier alliances while remaining independent companies ("the UA/LH Alliance");

WHEREAS, UA and SAS, beginning in 1995, have also agreed to a series of measures intended to establish a long-term alliance between them, linking their route networks and enabling them to market globally integrated air transportation services in competition with other carriers and carrier alliances while remaining independent companies ("the UA/SAS Alliance");

WHEREAS, the United States Department of Transportation (the "U.S. DOT") has granted UA and LH immunity from the U.S. antitrust laws, subject to certain conditions, to facilitate the integration of UA's and LH's route networks, to enhance the efficiency of their operations and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, UA and SAS have jointly applied to the U.S. DOT for similar immunity from the U.S. antitrust laws to facilitate the integration of UA's and SAS's route networks, to enhance the efficiency of their operations, and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, LH and SAS, since 1995, have sought to establish an integrated air transport system based on a comprehensive set of long-term commercial, marketing and operational relationships

which seek to promote operational integration, while maintaining their distinct corporate identities ("LH/SAS Alliance") and, on January 16, 1996, such alliance received from the European Commission an exemption pursuant to Article 85(3) of the Treaty of Rome;

WHEREAS, to expand exponentially the benefits available to the traveling and shipping public from the UA/LH Alliance, UA/SAS Alliance, and LH/SAS Alliance (herein referred to individually as "an Alliance" and any two or more of which as "Alliances") and to facilitate further efficiency-enhancing coordination of their services on a global basis, LH, SAS and UA now desire to create a system for coordination between and among them that will enable the Parties to discuss and coordinate between and among themselves the activities they have undertaken or plan to undertake in establishing and implementing any or all the Alliances; and

WHEREAS, the Parties intend to seek appropriate antitrust review, including immunity from U.S. antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 without which the Parties will not proceed with the implementation of this Coordination Agreement as contemplated herein;

NOW, THEREFORE, in consideration of the promises, mutual covenants and agreements herein contained, the Parties agree to enter into this Coordination Agreement under the terms and conditions set forth herein.

ARTICLE 1. COORDINATION PRINCIPLES

1.1 The Parties shall coordinate, facilitate, and implement their Alliances in such manner as they mutually deem appropriate in accordance with the following key principles:

1.1.1 The Parties shall seek to provide air transport services and related customer service at the highest levels of efficiency and service commercially feasible.

1.1.2 The Parties shall seek to maximize efficiencies within and among their respective route networks through coordination among and between themselves and the Alliances.

1.1.3 The Parties shall seek to maximize profitability through coordination of routes, schedules and resources to minimize costs such as delays, needless expenses, and inefficient allocation of resources.

1.1.4 The Parties shall seek to capture the efficiencies that stand to be gained through the creation of a single global network as if the Parties were to have merged and operate as a single firm.

1.1.5 The Parties shall abide by the terms of the Alliances and any modifications or amendments of, or subsidiary agreements thereto.

1.1.6 The Parties shall remain independent legal entities.

1.2 Coordination pursuant to this Coordination Agreement shall facilitate and complement the Parties' coordination and integration of their air transportation services occurring pursuant to the Alliances and the various arrangements and agreements underlying those Alliances. Nothing in this Coordination Agreement shall alter or incorporate any rights, responsibilities, obligations or remedies of the Parties under any other contract or agreement among the Parties or between any of them.

ARTICLE 2 AREAS OF COORDINATION

2.1 The Parties agree that the following shall constitute Areas of Coordination:

2.1.1 Route and schedule planning and coordination throughout their global route networks;

2.1.2 Establishment and management of marketing, advertising, sales and distribution networks, staffs, programs, policies and systems, including but not limited to the creation of joint sales offices, and coordination of travel agent and other commissions, and development of joint bids for government and corporate contracts;

2.1.3 Branding/co-branding (including the creation of logos and corporate markings), product development (including but not limited to interior design, decoration and cabin layout, in-flight entertainment, amenities and services, and passenger ground services), and market research.

2.1.4 Code sharing;

2.1.5 Pricing, inventory and yield management, including but not limited to the development, coordination and offering of any and all fare products, group bids, auxiliary service charges and collection policies, revenue management methods and procedures, and inventory management;

2.1.6 Sharing revenues received by one or more Parties for air transportation services on certain routes which two or more Parties may select from time to time, and the development, implementation and management of joint ventures, if any, that two or more Parties may create;

- 2.1.7 Procurement of goods and services, including station and ground handling services, general goods and services, field and station supplies, catering, crew uniforms, information technology products and services, fuel and maintenance;
 - 2.1.8 Obtaining and providing support services, including passenger and ramp services, training, and catering.
 - 2.1.9 Creation, management, operation, marketing and distribution of cargo services, including development of cargo products, coordinated use of cargo facilities and terminals, ground handling, coordination of trucking and RFS services, and coordination of cargo services in any of the substantive areas specified in this Article 2.1 (e.g., cargo pricing, inventory and yield management);
 - 2.1.10 Integration, design, and development of information systems (including inventory, yield management, reservation, ticketing, distribution and other operational systems), information technologies, and distribution channels;
 - 2.1.11 Coordination and integration of frequent flyer programs;
 - 2.1.12 Harmonization of financial reporting practices, including revenue and cost accounting practices;
 - 2.1.13 Harmonization of service levels and in-flight amenities;
 - 2.1.14 Provision of aircraft and ground equipment, and technical and maintenance services among the Parties at appropriate locations;
 - 2.1.15 Sharing of facilities and services at airports served by one or more Parties;
 - 2.1.16 Development and implementation of a model for calculating, monitoring and sharing the incremental benefits from the Alliances; and
 - 2.1.17 Promoting common use of the Parties' commuter carrier affiliates.
- 2.2 Subject to the key principles set forth in Article 1.1 above, the Parties' obligations under the Alliances, and their respective commercial goals, all Parties or any subgroup thereof shall be entitled to:
- 2.2.1 Exchange information regarding any actions undertaken or to be undertaken by one or more Parties or Alliances within any Area of Coordination;

2.2.2 Discuss the manner in which any action undertaken or to be undertaken by one or more Parties or Alliances within any Area of Coordination relates or should relate to actions undertaken or to be undertaken by any other Party, any other Alliance or the Alliances within that Area of Coordination; and

2.2.3 Agree on and coordinate actions within any Area of Coordination;

however, this provision shall in no way obligate, bind or require any Party to participate in any such exchange, discussion, agreement or coordination.

2.3. Notwithstanding the foregoing, the Parties shall not exchange information, discuss, agree upon or coordinate:

2.3.1 the management of their respective interests in the CRS systems owned and operated by Galileo International Partnership and AMADEUS Global Travel Distribution, S.A.; or

2.3.2 on any subject or in any manner that would cause any Party to contravene (i) any law, regulation or order of any government authority or court having jurisdiction over such Party; or (ii) the conditions of any grant of authority or immunity by any government authority, including U.S. DOT Order 96-5-27 granting antitrust immunity to LH and UA and any other order that may in the future grant antitrust immunity to any of the Alliances.

ARTICLE 3 ADMINISTRATION

To fulfill the functions set forth in Article 2 above and to administer coordination of the Alliances, the Parties agree as follows.

3.1 Each Party shall appoint one or more representatives, who shall meet in person or by telephone from time to time with such frequency as the Parties may agree.

3.2 The representatives appointed pursuant to Article 3.1 may designate any working groups and committees as may be necessary to achieve effective coordination in the areas set forth in Article 2.

3.3 The Parties may appoint different representatives for coordination of different functions or subject matters.

ARTICLE 4 IMPLEMENTATION AND CONDITIONS

- 4.1 The Parties shall make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining all regulatory approvals necessary to this Coordination Agreement.
- 4.2 This Coordination Agreement shall take effect when the Parties agree that they have obtained all requisite clearances, including the approval of the agreement and the immunization of the Parties from liability under the antitrust laws pursuant to 49 U.S.C. §§41308 and 41309 for all activities provided for in this Agreement, subject to conditions, if any, that are acceptable to all Parties.

When one Party believes that all requisite clearances have been obtained, that Party shall notify the other Parties pursuant to Article 7, and the other Parties shall advise under Article 7 within 24 hours whether or not each concurs. If all Parties concur, the Agreement shall take effect upon the receipt of the concurrence of the third Party.

- 4.3 In the event that this Coordination Agreement has not taken effect by December 31, 1996, any Party may declare this Coordination Agreement null and void upon written notice to the other Parties.

ARTICLE 5 INCLUSION OF OTHER PARTIES AND ALLIANCES

- 5.1 The Parties will be open to opportunities for inclusion of other carriers or carrier alliances as parties to this Coordination Agreement. Admission of such parties shall take place only by unanimous consent of the Parties and shall not become effective until all necessary regulatory approvals are obtained pursuant to Article 5.2.
- 5.2 If the Parties unanimously elect to include one or more additional carriers or carrier alliances as parties to the instant Coordination Agreement, the Parties shall amend the instant agreement (including, to the extent the Parties deem appropriate, Article 6) pursuant to Article 11 hereof to provide for inclusion of such additional carrier(s) or carrier alliance(s) and the Parties shall together make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining all regulatory approvals necessary for such amendment.

ARTICLE 6 DURATION AND TERMINATION

- 6.1 This Coordination Agreement shall remain in effect until terminated in accordance with Article 6.2 hereof.

6.2 This Coordination Agreement shall be terminated:

- (i) simultaneously with the termination of any Alliance; or
- (ii) in the event that there is no termination of any Alliance, one year after a Party has served written notice of its intent to terminate this Coordination Agreement on the other Parties pursuant to Article 7.

ARTICLE 7 NOTICES

Notices required or permitted under this Coordination Agreement shall be in writing and communicated to the following persons:

For LH:

Deutsche Lufthansa, AG
Lufthansa Basis
FRACJ
60546 Frankfurt
Germany
Attn: General Counsel

For SAS:

Scandinavian Airlines System
Frösundaviks Allé 1
Solna, S-195 87
Stockholm, Sweden
Attn: Vice President and General Counsel

For UA:

United Air Lines, Inc.
P.O. Box (EXOPO) 66100
Chicago, Illinois 60666
USA
Attn: Executive Vice President Corporate Affairs and General Counsel

ARTICLE 8 NO CREATION OF FINANCIAL OBLIGATIONS

Except as set forth in Article 9, nothing in this Coordination Agreement shall give rise to any financial obligation by any Party to any other Party, nor interfere or limit the rights or obligations that any Party may have to or be owed by another Party by virtue of other agreements existing between them. The sole remedy available to a Party or Parties for the nonfulfillment or breach of a covenant contained herein shall be the termination of the Coordination Agreement pursuant to Article 6.

ARTICLE 9 GENERAL INDEMNIFICATION

As between any two Parties to this Coordination Agreement, activities falling within the scope of this Coordination Agreement, but not otherwise covered by any other agreement between those two Parties, will be deemed to be within the scope of and covered by the indemnification clause(s) of the basic agreement underlying the alliance between those two Parties.

ARTICLE 10 NO THIRD-PARTY BENEFICIARIES

This Coordination Agreement is for the benefit of the Parties and is not intended to confer any rights or benefits on any third party.

ARTICLE 11 AMENDMENTS

This Coordination Agreement may be modified only by a written instrument duly executed by or on behalf of each Party.

ARTICLE 12 GOVERNING LAW

This Coordination Agreement shall be governed by the laws of New York, without reference to the choice of law provisions thereof, provided, however, that this Article does not modify or affect the governing law provisions in any of the agreements underlying the Alliances or any decision as to what laws should govern those agreements or any disputes that may arise with respect to those agreements.

ARTICLE 13 COUNTERPARTS

This Coordination Agreement may be executed in one or more counterparts all of which taken together will constitute one and the same instrument.

DEUTSCHE LUFTREISE, A.G.

J. Weber

Jürgen Weber
Chairman of the Supervisory Board

Hans Wolfgang Fischer

Hans Wolfgang Fischer
General Counsel

SCANDINAVIAN AIRLINES SYSTEM

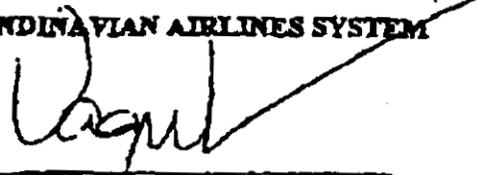
Vagn Sorenson
Senior Vice-President, Business Systems Division

UNITED AIR LINES, INC.

Christopher D. Bowen
Senior Vice-President - International

DEUTSCHE LUFTHANSA, A.G.

SCANDINAVIAN AIRLINES SYSTEM



Kirgen Weber
Chairman of the Executive Board

Vagn Schjansen
Senior Vice-President, Business Systems Division

Hans Wolfgang Sacher
General Counsel

UNITED AIR LINES, INC.

Christopher D. Bowers
Senior Vice-President - International

DEUTSCHE LUFTHANSA, A.G.

SCANDINAVIAN AIRLINES SYSTEM

Jürgen Weber
Chairman of the Executive Board

Vagn Sorenson
Senior Vice-President, Business Systems Division

Hans Wolfgang Sacher
General Counsel

UNITED AIR LINES, INC.



Christopher D. Bowers
Senior Vice-President - International

United/bmi Code Share Services
(operated as of September 5, 2001)

Routes Operated by bmi (BD/UA*)

London (LHR) - Amsterdam
Belfast
Brussels
Dublin
Edinburgh
Glasgow
Leeds/Bradford
Manchester
Nice
Teesside

Manchester - Aberdeen
Chicago
Edinburgh
Glasgow
Washington

United/bmi Code Share Services
(operated as of September 5, 2001)

Routes Operated by United (UA/BD*)

Chicago - Austin
Cincinnati
Dallas (DFW)
Denver
Detroit
Houston (IAH)
Indianapolis
Kansas City
Las Vegas
Los Angeles
Minneapolis/St. Paul
Orange County
Phoenix
Portland
Salt Lake City
San Diego
San Francisco
Seattle

Washington Dulles - Atlanta
Austin
Boston
Hartford
Miami
New Orleans
New York (LGA)
Orlando
Phoenix
San Jose
Tampa
Tucson

U.S.-Europe Seat Share

| <u>Airline</u> | <u>Daily Departures</u> | <u>Seats Per Departure</u> | <u>Daily Seats</u> | <u>Seat Share</u> |
|---------------------------|-------------------------|----------------------------|--------------------|-------------------|
| British Airways | 75 | 349 | 26,219 | 13.2% |
| American | 84 | 211 | 17,756 | 9.0% |
| United | 64 | 271 | 17,328 | 8.8% |
| Delta | 74 | 223 | 16,508 | 8.3% |
| Lufthansa | 51 | 311 | 15,913 | 8.0% |
| Air France | 41 | 302 | 12,498 | 6.3% |
| Virgin Atlantic | 32 | 382 | 12,111 | 6.1% |
| Continental | 46 | 226 | 10,396 | 5.3% |
| Northwest | 32 | 314 | 10,172 | 5.1% |
| US Airways | 32 | 234 | 7,488 | 3.8% |
| Alitalia | 20 | 284 | 5,589 | 2.8% |
| Swiss Air | 26 | 212 | 5,513 | 2.8% |
| KLM | 19 | 287 | 5,492 | 2.8% |
| Aer Lingus | 17 | 310 | 5,315 | 2.7% |
| Iberia | 11 | 334 | 3,672 | 1.9% |
| SAS | 14 | 251 | 3,514 | 1.8% |
| Sabena | 12 | 233 | 2,798 | 1.4% |
| LOT | 7 | 227 | 1,688 | 0.9% |
| Singapore Airlines | 4 | 394 | 1,575 | 0.8% |
| Icelandair | 8 | 189 | 1,512 | 0.8% |
| Austrian | 6 | 258 | 1,471 | 0.7% |
| Aeroflot | 6 | 240 | 1,370 | 0.7% |
| Air India | 3 | 435 | 1,243 | 0.6% |
| bmi | 4 | 244 | 906 | 0.5% |
| TAP Air Portugal | 4 | 231 | 857 | 0.4% |
| Air New Zealand | 2 | 392 | 784 | 0.4% |
| Olympic Airways | 3 | 295 | 759 | 0.4% |
| Finnair | 2 | 311 | 622 | 0.3% |
| Martinair | 2 | 272 | 622 | 0.3% |
| Czech Airlines | 3 | 207 | 591 | 0.3% |
| LTU International Airways | 2 | 312 | 535 | 0.3% |
| Spanair | 2 | 252 | 504 | 0.3% |
| Royal Jordanian | 2 | 210 | 480 | 0.2% |
| Malev Hungarian | 2 | 197 | 394 | 0.2% |
| Kuwait Airways | 1 | 266 | 380 | 0.2% |
| Lauda Air | 1 | 258 | 369 | 0.2% |
| Air Europa | 1 | 253 | 361 | 0.2% |
| Pakistan International | 1 | 309 | 353 | 0.2% |
| Condor Flugdienst | 1 | 269 | 346 | 0.2% |
| Biman Bangladesh | 1 | 272 | 233 | 0.1% |
| AOM French Airlines | 1 | 250 | 214 | 0.1% |
| Uzbekistan Airways | 1 | 226 | 194 | 0.1% |
| TAROM | 1 | 209 | 179 | 0.1% |
| Air Ukraine | 1 | 230 | 164 | 0.1% |
| Other | 4 | 250 | 1,000 | 0.5% |
| Totals | 726 | | 197,989 | 100.0% |

Source: OAG September 2001

U.S.-UK Seat Share

| <u>Airline</u> | <u>Daily Departures</u> | <u>Seats Per Deaprture</u> | <u>Daily Seats</u> | <u>Seat Share</u> |
|------------------------|--------------------------------|-----------------------------------|---------------------------|--------------------------|
| British Airways | 75.1 | 349 | 26,219 | 36.5% |
| Virgin Atlantic | 31.7 | 382 | 12,111 | 16.9% |
| American | 46.0 | 221 | 10,148 | 14.1% |
| United | 32.0 | 275 | 8,800 | 12.3% |
| Continental | 18.0 | 228 | 4,110 | 5.7% |
| Delta | 12.0 | 244 | 2,927 | 4.1% |
| US Airways | 10.0 | 254 | 2,544 | 3.5% |
| Northwest | 4.4 | 290 | 1,284 | 1.8% |
| Air India | 2.9 | 435 | 1,243 | 1.7% |
| bmi | 3.7 | 244 | 906 | 1.3% |
| Air New Zealand | 2.0 | 392 | 784 | 1.1% |
| Pakistan International | 1.1 | 309 | 353 | 0.5% |
| Kuwait Airways | 0.9 | 291 | 249 | 0.3% |
| Uzbekistan Airways | 0.3 | 219 | 63 | 0.1% |
| Total | 240.1 | | 71,743 | 100.0% |

Source: OAG September 2001

U.S.-UK Passenger Traffic Share

| <u>Marketing Airline</u> | <u>Bookings</u> | <u>Share</u> |
|---------------------------------|------------------------|---------------------|
| British Airways | 3,619,760 | 27.6% |
| Virgin Atlantic | 2,054,987 | 15.7% |
| American | 1,734,454 | 13.2% |
| United | 1,675,924 | 12.8% |
| Continental | 1,322,900 | 10.1% |
| Delta | 660,772 | 5.0% |
| US Airways | 523,510 | 4.0% |
| Northwest | 388,761 | 3.0% |
| KLM | 204,012 | 1.6% |
| Air India | 182,754 | 1.4% |
| Air Canada | 175,676 | 1.3% |
| Air New Zealand | 111,321 | 0.8% |
| Air France | 98,881 | 0.8% |
| Aer Lingus | 86,724 | 0.7% |
| Icelandair | 78,644 | 0.6% |
| Lufthansa | 52,999 | 0.4% |
| Sabena | 44,494 | 0.3% |
| Kuwait Airways | 24,291 | 0.2% |
| bmi | 13,258 | 0.1% |
| Martinair | 12,735 | 0.1% |
| SAS | 12,366 | 0.1% |
| Swiss Air | 11,697 | 0.1% |
| All Others | 28,148 | 0.2% |
| Totals | 13,119,068 | 100.0% |

Source: CRS nondirectional booking data for
12 months ending July 2001

bmi's Aircraft Fleet

Total Wide-Body Aircraft: 2

| <u>Aircraft Type</u> | <u>No. of Aircraft</u> | <u>Max. Seating Capacity</u> |
|----------------------|------------------------|------------------------------|
| Airbus A330-200 | 2 | 244 |

Total Narrow-Body Aircraft: 53

| <u>Aircraft Type</u> | <u>No. of Aircraft</u> | <u>Max. Seating Capacity</u> |
|----------------------|------------------------|------------------------------|
| Airbus A321-200 | 10 | 195 |
| Airbus A320-200 | 8 | 156 |
| Boeing 737-400 | 2 | 150 |
| Boeing 737-300 | 6 | 132 |
| Boeing 737-500 | 8 | 117 |
| Fokker 100* | 5 | 106 |
| Fokker 70* | 3 | 74 |
| Embraer ERJ-145ER* | 9 | 49 |
| Embraer ERJ-135* | 1 | 37 |
| Embraer ERJ-135ER* | 1 | 37 |

* Fokker and Embraer aircraft are operated by bmi regional.

Note: This exhibit excludes one wide-body and two narrow-body bmi aircraft that are currently wet leased to third-party carriers and not operated as part of bmi's network.

United's Code Share Arrangements¹

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> | |
|-----------------|--------------------------------|---|----|
| Air Canada | U.S. - | Canada; intra-U.S | UA |
| | Mexico City - | Chicago | UA |
| | | Los Angeles | |
| | | San Francisco | |
| | | Washington | |
| | Los Angeles - | Auckland | UA |
| U.S. - | Canada; intra-Canada | AC | |
| Vancouver - | Taipei | AC | |
| Air New Zealand | Sydney - | Los Angeles | UA |
| | | San Francisco | |
| | Auckland - | Melbourne | UA |
| | Los Angeles - | Vancouver | UA |
| | U.S. - | New Zealand (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond New Zealand or U.S. | UA |
| | U.S. - | New Zealand (nonstop or via an intermediate point or points in third countries); intra-New Zealand; points beyond New Zealand or U.S. | NZ |
| | South Pacific - | Los Angeles | NZ |
| | Auckland | | |
| | Honolulu | | |
| New Zealand - | Australia | NZ | |
| ALM | Atlanta - | Curacao/Aruba | LM |
| | Atlanta - | Curacao/Bonaire | LM |
| | San Juan - | Curacao | LM |
| | Miami - | Puerto Plata/Santo Domingo/Caracas/ | LM |
| | | | |

¹ This exhibit identifies the foreign carriers with which United has been authorized by the Department to code share. In the case of blanket statements of authorization granted pursuant to liberal bilateral aviation agreements, individual city-pairs are not detailed. Some of the code-share services listed may not yet have been implemented, may be pending foreign government approval, or may have been suspended.

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> | |
|-------------------------|--------------------------------|--|----|
| | Curacao/Bonaire - | Curacao - Curacao/ Bonaire Aruba/Port-au-Prince - Miami | LM |
| ANA | U.S. - | Japan (nonstop or via an intermediate point or points in third countries); intra- U.S.; points beyond Japan or U.S. | UA |
| | U.S. - | Japan (nonstop or via an intermediate point or points in third countries); intra- Japan; points beyond Japan or U.S. | NH |
| Ansett Australia | Melbourne - | Adelaide Canberra Gold Coast (Coolangatta) Hobart Perth Sydney | AN |
| | Sydney - | Adelaide Brisbane Cairns Canberra Gold Coast (Coolangatta) Melbourne Perth | AN |
| Ansett International | Sydney - | Los Angeles San Francisco | UA |
| | Melbourne - | Los Angeles (nonstop and via Auckland) | UA |
| | Los Angeles/San Francisco - | Atlanta Boston Chicago Dallas/Fort Worth Las Vegas Miami New York Portland | UA |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> | |
|------------------------|--------------------------------|---|----|
| | | San Diego Seattle Washington | |
| Austrian | U.S. - | Austria (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond Austria or U.S. | UA |
| | U.S. - | Austria (nonstop or via an intermediate point or points in third countries); intra-Austria; points beyond Austria or U.S. | OS |
| bmi british midland | Chicago (ORD) - | Atlanta Austin Baltimore Boston Cincinnati Dallas/Fort Worth Denver Detroit Hartford Houston Indianapolis Kansas City Las Vegas Los Angeles Mexico City Miami Minneapolis/St. Paul New Orleans New York Orange County Orlando Philadelphia Phoenix Portland St. Thomas Salt Lake City San Diego | UA |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|------------------------|--------------------------------|--------------------------|
| bmi british midland | Washington (IAD) - | UA |
| | San Francisco | |
| | San Jose | |
| | San Juan | |
| | Seattle | |
| | Tampa | |
| | Tucson | |
| | Atlanta | |
| | Austin | |
| | Boston | |
| | Chicago | |
| | Cincinnati | |
| | Dallas/Fort Worth | |
| | Denver | |
| | Detroit | |
| | Hartford | |
| | Houston | |
| | Indianapolis | |
| | Kansas City | |
| | Las Vegas | |
| | Los Angeles | |
| | Mexico City | |
| | Miami | |
| | Minneapolis/St. Paul | |
| | New Orleans | |
| | New York | |
| | Orange County | |
| | Orlando | |
| | Philadelphia | |
| | Phoenix | |
| | Portland | |
| | St. Thomas | |
| | Salt Lake City | |
| | San Diego | |
| | San Francisco | |
| | San Jose | |
| | San Juan | |
| | Seattle | |
| | Tampa | |
| | Tucson | |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|----------------|--------------------------------|--|
| | Manchester - | Chicago Washington Glasgow Edinburgh Aberdeen Dusseldorf Frankfurt* |
| | London (LHR) - | Paris Milan Warsaw* Budapest* Prague* Cologne/Bonn* Stuttgart Dresden* Hanover Copenhagen Geneva* Malaga* Madrid Barcelona Berlin* Helsinki* Lisbon Faro Rome Stockholm* Manchester Nice Glasgow Amsterdam Brussels Edinburgh Belfast Leeds/Bradford Teeside Frankfurt* |
| | East Midlands - | Dublin Amsterdam Frankfurt |

* bmi no longer operates in these city pairs.

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|----------------|---|--------------------------|
| | Brussels - Paris Birmingham* East Midlands | BD |
| BWIA | Miami - Chicago New York - Hartford Los Angeles San Francisco Seattle | UA UA |
| | Washington (IAD) - Boston Chicago Denver Hartford Los Angeles New York San Francisco Seattle | UA |
| | Washington (IAD) - Antigua Barbados Port of Spain | BW |
| | New York - Antigua Barbados Port of Spain | BW |
| | Miami - Barbados Port of Spain Tobago | BW |
| Cayman Airways | Cayman Islands - Miami Houston Tampa Atlanta Orlando | KX |
| Emirates | London - Dubai | EK |
| Kendell | Sydney - Canberra Melbourne - Canberra Hobart | KD KD |
| Lauda | Miami - Caracas Montevideo Santiago | UA |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|----------------|---|--------------------------|
| | Vienna - Dubai Kathmandu Male Manchester Miami Riga Rome Split Tallinn Verona | NG |
| Lufthansa | Mexico City Chicago Washington | UA |
| | U.S. - Germany (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond Germany or U.S. | UA |
| | U.S. - Germany (nonstop or via an intermediate point or points in third countries); intra-Germany; points beyond Germany or U.S. | LH |
| Mexicana | Intra-U.S. U.S. - Mexico City - Canada Chicago Los Angeles San Francisco Washington | UA UA UA |
| | Mexico City - San Jose, Costa Rica | UA |
| | Chicago - London | UA |
| | Los Angeles - Tokyo | UA |
| | San Francisco - Osaka Seoul Sydney Tokyo | UA |
| | Miami - Santiago | UA |
| | Intra-Mexico Mazatlan | MX |
| | Denver - Puerto Vallarta San Jose del Cabo | MX |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> | |
|----------------|--------------------------------|--|----------|
| | Chicago - | Mexico City Guadalajara Puerto Vallarta Morelia Monterrey | MX |
| | Los Angeles - | Cancun Guadalajara Mexico City San Jose del Cabo Puerto Vallarta Leon | MX |
| | Miami - | Cancun | MX |
| | New York (EWR) - | Mexico City | MX |
| | Oakland - | Guadalajara | MX |
| | San Antonio - | Mexico City | MX |
| | San Francisco - | Mexico City Guadalajara Morelia | MX |
| | San Jose, CA - | Guadalajara | MX |
| | Mexico City - | Guatemala City Panama City | MX |
| SAS | U.S. - | Denmark, Norway and Sweden ("Scandinavia") (nonstop or via an intermediate point or points in third countries); intra- U.S.; points beyond Scandinavia or U.S. | UA |
| | U.S. - | Scandinavia (nonstop or via an intermediate point or points in third countries); intra-Scandinavia; points beyond Scandinavia or U.S. | SK |
| Saudia | Los Angeles - New York - | New York Dhahran Jeddah Riyadh | UA SV |
| Spanair | Washington (IAD) - | Madrid - Barcelona/ | JK |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|----------------|--|--------------------------|
| | Queretaro San Luis Potosi | |
| Tyrolean | Brussels - Linz Salzburg | VO |
| | Dusseldorf - Graz Salzburg | VO |
| | Frankfurt - Bolzano Graz Innsbruck Klagenfurt Linz Salzburg | VO |
| | Munich - Bolzano Graz Innsbruck Klagenfurt Linz Salzburg | VO |
| | Rome - Bolzano | VO |
| | Vienna - Banja Luka Bern Bologna Bremen Budapest Cologne Dresden Edinburgh Florence Gothenberg Graz Hanover Helsinki Innsbruck Katowice Klagenfurt Kosice Krakow Leipzig Linz Ljubljana Luxembourg | VO |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|----------------|--------------------------------|---|
| | Zurich - | Mostar Nuremberg Oslo Prague Salzburg Stuttgart Venice Zagreb Graz Innsbruck Klagenfurt Linz Salzburg VO |
| Varig | Sao Paulo - | New York Chicago UA |
| | Miami - | Sao Paulo Rio de Janiero UA |
| | Miami - | Orlando Denver Chicago Washington (DCA/IAD) Newark Los Angeles San Francisco Atlanta New York (LGA) Tampa UA |
| | Los Angeles - | Honolulu Las Vegas Portland Phoenix San Diego Seattle San Francisco Tucson UA |
| | Chicago - | San Jose Detroit Houston San Juan Boston Cleveland UA |

| <u>Partner</u> | <u>Route (non directional)</u> | <u>Operating Carrier</u> |
|------------------|--------------------------------|--------------------------|
| | Pittsburgh | |
| | St. Louis | |
| | Salt Lake City | |
| | Cincinnati | |
| Sao Paulo - | New York | RG |
| | Los Angeles | |
| | Miami | |
| Rio de Janeiro - | New York | RG |
| | Miami | |
| Miami - | Belem | RG |
| | Fortaleza | |
| | Manaus | |
| | Recife | |
| Belo Horizonte - | New York | RG |
| Sao Paulo - | Atlanta | RG |
| | Washington (IAD) | |
| Boston - | Sao Paulo | RG |
| | Rio de Janeiro | |
| Sao Paulo - | Belem | RG |
| | Belo Horizonte | |
| | Rio de Janeiro | |
| | Manaus | |
| | Porto Alegre | |
| | Salvador | |
| | Brasilia | |
| | Recife | |
| | Curitiba | |
| | Fortaleza | |
| | Florianopolis | |
| | Iguacu | |
| | Natal | |
| | Cuiaba | |
| | Campo Grande | |
| | Sao Luiz | |
| | Joao Pessoa | |
| | Maceio | |
| Manaus - | Belem | RG |
| Fortaleza - | Recife | RG |
| Porto Alegre - | Rio de Janeiro | RG |

bmi's Code Share Arrangements
(as of 5 September 2001)

| Partner | Route (non directional) | Operating Carrier | Marketing Carrier |
|-------------------------|--------------------------------|--------------------------|--------------------------|
| Air Canada ¹ | London-Amsterdam | BD | AC |
| | London-Barcelona* | BD | AC |
| | London-Belfast | BD | AC |
| | London-Brussels | BD | AC |
| | London-Edinburgh | BD | AC |
| | London-Glasgow | BD | AC |
| | London-Leeds Bradford | BD | AC |
| | London-Madrid* | BD | AC |
| | London-Manchester | BD | AC |
| | London-Teesside | BD | AC |
| | London-Calgary* | AC | BD |
| | London-Edmonton* | AC | BD |
| | London-Halifax* | AC | BD |
| | London-Montreal* | AC | BD |
| | London-Ottawa* | AC | BD |
| | London-St Johns* | AC | BD |
| | London-Toronto* | AC | BD |
| | London-Vancouver* | AC | BD |
| | Manchester-Toronto* | AC | BD |
| | Glasgow-Toronto* | AC | BD |
| Air France | London-Nice | BD | AF |
| Air New Zealand | London-Amsterdam | BD | NZ |
| | London-Belfast | BD | NZ |
| | London-Brussels | BD | NZ |
| | London-Dublin | BD | NZ |
| | London-Edinburgh | BD | NZ |
| | London-Glasgow | BD | NZ |
| | London-Leeds Bradford | BD | NZ |
| | London-Manchester | BD | NZ |
| London-Teesside | BD | NZ | |

¹ BD marketing code share on Air Canada UK-Canada services operational Spring 2002
AC marketing code share on BD London-Barcelona/Madrid services operational 17 September, 2001
* subject to government approval

| | | | |
|--------------------------|------------------------|----|----|
| All Nippon Airways | London-Belfast | BD | NH |
| | London-Edinburgh | BD | NH |
| | London-Glasgow | BD | NH |
| | London-Manchester | BD | NH |
| Aurigny ² | East Midlands-Guernsey | GR | BD |
| | Manchester-Guernsey | GR | BD |
| Austrian Airlines | London-Belfast | BD | OS |
| | London-Dublin | BD | OS |
| | London-Edinburgh | BD | OS |
| | London-Glasgow | BD | OS |
| | London-Leeds Bradford | BD | OS |
| | London-Teesside | BD | OS |
| Continental ³ | Manchester-Aberdeen | BD | CO |
| | Manchester-Edinburgh | BD | CO |
| | Manchester-Glasgow | BD | CO |
| Gulf Air | London-Amsterdam | BD | GF |
| | London-Belfast | BD | GF |
| | London-Brussels | BD | GF |
| | London-Edinburgh | BD | GF |
| | London-Glasgow | BD | GF |
| | London-Leeds Bradford | BD | GF |
| | London-Manchester | BD | GF |
| | London-Teesside | BD | GF |
| Icelandair | London-Belfast | BD | FI |
| | London-Dublin | BD | FI |
| | East Midlands-Glasgow | BD | FI |
| Lufthansa | London-Amsterdam | BD | LH |
| | London-Barcelona | BD | LH |
| | London-Belfast | BD | LH |
| | London-Brussels | BD | LH |
| | London-Dublin | BD | LH |
| | London-Edinburgh | BD | LH |
| | London-Glasgow | BD | LH |
| | London-Hanover | BD | LH |
| | London-Leeds Bradford | BD | LH |
| | London-Madrid | BD | LH |
| | London-Manchester | BD | LH |
| | London-Milan | BD | LH |

² BD marketing code share on Aurigny Manchester-Guernsey services operational 28 October, 2001

³ Terminates 27 October, 2001

| | | | |
|-----------|-------------------------|----|----|
| Lufthansa | London-Nice | BD | LH |
| | London-Palma | BD | LH |
| | London-Paris | BD | LH |
| | London-Rome | BD | LH |
| | London-Stuttgart | BD | LH |
| | London-Teesside | BD | LH |
| | Manchester-Aberdeen | BD | LH |
| | Manchester-Dusseldorf | BD | LH |
| | Manchester-Edinburgh | BD | LH |
| | Manchester-Glasgow | BD | LH |
| | East Midlands-Frankfurt | BD | LH |
| | Edinburgh-Frankfurt | BD | LH |
| | London-Berlin | LH | BD |
| | London-Cologne | LH | BD |
| | London-Dusseldorf | LH | BD |
| | London-Frankfurt | LH | BD |
| | London-Hamburg | LH | BD |
| | London-Hanover | LH | BD |
| | London-Muenster | LH | BD |
| | London-Munich | LH | BD |
| | London-Stuttgart | LH | BD |
| | Manchester-Cologne | LH | BD |
| | Manchester-Frankfurt | LH | BD |
| | Manchester-Hamburg | LH | BD |
| | Manchester-Hanover | LH | BD |
| | Manchester-Munich | LH | BD |
| | Manchester-Stuttgart | LH | BD |
| | Birmingham-Cologne | LH | BD |
| | Birmingham-Dusseldorf | LH | BD |
| | Birmingham-Frankfurt | LH | BD |
| | Birmingham-Munich | LH | BD |
| | Newcastle-Dusseldorf | LH | BD |
| | Newcastle-Hamburg | LH | BD |
| Malaysian | London-Belfast | BD | MH |
| | London-Dublin | BD | MH |
| | London-Edinburgh | BD | MH |
| | London-Glasgow | BD | MH |
| | London-Leeds Bradford | BD | MH |
| | London-Manchester | BD | MH |
| | London-Teesside | BD | MH |

| | | | |
|-----------------------|-----------------------|----|----|
| Mexicana | Chicago-Manchester | BD | MX |
| | Mexico City-Chicago | MX | BD |
| Royal Brunei | London-Belfast | BD | BI |
| | London-Edinburgh | BD | BI |
| | London-Glasgow | BD | BI |
| | London-Leeds Bradford | BD | BI |
| | London-Teesside | BD | BI |
| SAS | London-Dublin | BD | SK |
| | London-Madrid | BD | SK |
| | London-Milan | BD | SK |
| | London-Rome | BD | SK |
| | Glasgow-Copenhagen | BD | SK |
| | Edinburgh-Copenhagen | BD | SK |
| | Aberdeen-Esbjerg | BD | SK |
| | London-Copenhagen | SK | BD |
| | London-Gothenburg | SK | BD |
| | London-Oslo | SK | BD |
| | London-Stavanger | SK | BD |
| | London-Stockholm | SK | BD |
| | Manchester-Copenhagen | SK | BD |
| | Manchester-Oslo | SK | BD |
| | Birmingham-Copenhagen | SK | BD |
| | Aberdeen-Stavanger | SK | BD |
| South African Airways | London-Belfast | BD | SA |
| | London-Edinburgh | BD | SA |
| | London-Glasgow | BD | SA |
| | London-Leeds Bradford | BD | SA |
| | London-Manchester | BD | SA |
| | London-Teesside | BD | SA |
| Sri Lankan | London-Belfast | BD | UL |
| | London-Edinburgh | BD | UL |
| | London-Glasgow | BD | UL |
| | London-Leeds Bradford | BD | UL |
| | London-Teesside | BD | UL |
| TAP Air Portugal | London-Belfast | BD | TP |
| | London-Dublin | BD | TP |

| | | | | |
|------------------|-----------------------|--------------------------|----|----|
| TAP Air Portugal | London-Edinburgh | BD | TP | |
| | London-Glasgow | BD | TP | |
| | London-Leeds Bradford | BD | TP | |
| | London-Teesside | BD | TP | |
| United Airlines | London-Amsterdam | BD | UA | |
| | London-Barcelona | BD | UA | |
| | London-Belfast | BD | UA | |
| | London-Brussels | BD | UA | |
| | London-Dublin | BD | UA | |
| | London-Edinburgh | BD | UA | |
| | London-Glasgow | BD | UA | |
| | London-Hanover | BD | UA | |
| | London-Leeds Bradford | BD | UA | |
| | London-Madrid | BD | UA | |
| | London-Manchester | BD | UA | |
| | London-Milan | BD | UA | |
| | London-Nice | BD | UA | |
| | London-Paris | BD | UA | |
| | London-Rome | BD | UA | |
| | London-Stuttgart | BD | UA | |
| | London-Teesside | BD | UA | |
| | | Manchester-Aberdeen | BD | UA |
| | | Manchester-Chicago | BD | UA |
| | | Manchester-Dusseldorf | BD | UA |
| | | Manchester-Edinburgh | BD | UA |
| | | Manchester-Glasgow | BD | UA |
| | | Manchester-Washington | BD | UA |
| | | East Midlands-Amsterdam | BD | UA |
| | | East Midlands-Brussels | BD | UA |
| | | East Midlands-Frankfurt | BD | UA |
| | | East Midlands-Paris | BD | UA |
| | | Chicago-Atlanta | UA | BD |
| | | Chicago-Austin | UA | BD |
| | | Chicago-Baltimore | UA | BD |
| | | Chicago-Cincinnati | UA | BD |
| | | Chicago-Dallas/Ft. Worth | UA | BD |
| | | Chicago-Denver | UA | BD |
| | | Chicago-Detroit | UA | BD |
| | | Chicago-Hartford | UA | BD |
| | | Chicago-Houston | UA | BD |
| | Chicago-Indianapolis | UA | BD | |
| | Chicago-Kansas City | UA | BD | |
| | Chicago-Las Vegas | UA | BD | |
| | Chicago-Los Angeles | UA | BD | |
| | Chicago-Mexico City | UA | BD | |

| | | | |
|-----------------|---------------------------------|----|----|
| United Airlines | Chicago-Miami | UA | BD |
| | Chicago-Minneapolis | UA | BD |
| | Chicago-New Orleans | UA | BD |
| | Chicago-New York | UA | BD |
| | Chicago-Orange County | UA | BD |
| | Chicago-Orlando | UA | BD |
| | Chicago-Philadelphia | UA | BD |
| | Chicago-Phoenix | UA | BD |
| | Chicago-Portland, OR | UA | BD |
| | Chicago-St. Thomas | UA | BD |
| | Chicago-Salt Lake City | UA | BD |
| | Chicago-San Diego | UA | BD |
| | Chicago-San Francisco | UA | BD |
| | Chicago-San Jose | UA | BD |
| | Chicago-San Juan | UA | BD |
| | Chicago-Seattle | UA | BD |
| | Chicago-Tampa | UA | BD |
| | Chicago-Tucson | UA | BD |
| | Washington-Atlanta | UA | BD |
| | Washington-Austin | UA | BD |
| | Washington-Boston | UA | BD |
| | Washington-Chicago | UA | BD |
| | Washington-Cincinnati | UA | BD |
| | Washington-Dallas/Ft. Worth | UA | BD |
| | Washington-Denver | UA | BD |
| | Washington-Detroit | UA | BD |
| | Washington-Hartford | UA | BD |
| | Washington-Houston | UA | BD |
| | Washington-Indianapolis | UA | BD |
| | Washington-Kansas City | UA | BD |
| | Washington-Las Vegas | UA | BD |
| | Washington-Los Angeles | UA | BD |
| | Washington-Mexico City | UA | BD |
| | Washington-Miami | UA | BD |
| | Washington-Minneapolis/St. Paul | UA | BD |
| | Washington-New Orleans | UA | BD |
| | Washington-New York (LGA) | UA | BD |
| | Washington-Orange County | UA | BD |
| | Washington-Orlando | UA | BD |
| | Washington-Philadelphia | UA | BD |
| | Washington-Phoenix | UA | BD |
| | Washington-Portland | UA | BD |
| | Washington-St. Thomas | UA | BD |
| | Washington-Salt Lake City | UA | BD |
| | Washington-San Diego | UA | BD |
| | Washington-San Francisco | UA | BD |
| | Washington-San Jose | UA | BD |
| | Washington-San Juan | UA | BD |

| | | | | |
|-----------------------------|-----------------------------------|---------------------------------|----|----|
| United Airlines | Washington-Seattle | UA | BD | |
| | Washington-Tampa | UA | BD | |
| | Washington-Tucson | UA | BD | |
| Atlantic Coast ⁴ | Chicago-Akron/Canton | DH | BD | |
| | Chicago-Albany | DH | BD | |
| | Chicago-Buffalo | DH | BD | |
| | Chicago-Cedar Rapids | DH | BD | |
| | Chicago-Charleston, SC | DH | BD | |
| | Chicago-Charleston, WV | DH | BD | |
| | Chicago-Charlotte | DH | BD | |
| | Chicago-Columbia | DH | BD | |
| | Chicago-Fargo | DH | BD | |
| | Chicago-Greenville/Spartanburg | DH | BD | |
| | Chicago-Hartford | DH | BD | |
| | Chicago-Jacksonville | DH | BD | |
| | Chicago-Kansas City | DH | BD | |
| | Chicago-Memphis | DH | BD | |
| | Chicago-Mobile | DH | BD | |
| | Chicago-Nashville | DH | BD | |
| | Chicago-Omaha | DH | BD | |
| | Chicago-Peoria | DH | BD | |
| | Chicago-Roanoke | DH | BD | |
| | Chicago-Saginaw | DH | BD | |
| | Chicago-Savannah | DH | BD | |
| | Chicago-Sioux Falls | DH | BD | |
| | Chicago-Springfield | DH | BD | |
| | Chicago-Tulsa | DH | BD | |
| | Chicago-Wilkes-Barre Scranton | DH | BD | |
| | | Washington-Akron/Canton | DH | BD |
| | | Washington-Albany | DH | BD |
| | | Washington-Allentown/Bethlehem | DH | BD |
| | | Washington-Baltimore/Washington | DH | BD |
| | | Washington-Binghamton | DH | BD |
| | | Washington-Buffalo | DH | BD |
| | | Washington-Burlington | DH | BD |
| | | Washington-Charleston, SC | DH | BD |
| | Washington-Charleston, WV | DH | BD | |
| | Washington-Charlottesville | DH | BD | |
| | Washington-Cleveland | DH | BD | |
| | Washington-Columbia | DH | BD | |
| | Washington-Columbus | DH | BD | |
| | Washington-Dayton | DH | BD | |
| | Washington-Detroit | DH | BD | |
| | Washington-Greensboro/High Point | DH | BD | |
| | Washington-Greenville/Spartanburg | DH | BD | |

⁴ BD marketing code share on Atlantic Coast services operational Spring 2002

| | | | | |
|-----------------------|-------------------------------|------------------|----|----|
| Atlantic Coast | Washington-Harrisburg | DH | BD | |
| | Washington-Indianapolis | DH | BD | |
| | Washington-Jacksonville | DH | BD | |
| | Washington-Knoxville | DH | BD | |
| | Washington-Louisville | DH | BD | |
| | Washington-Lynchburg | DH | BD | |
| | Washington-Mobile | DH | BD | |
| | Washington-Nashville | DH | BD | |
| | Washington-Newburgh | DH | BD | |
| | Washington-Newport News | DH | BD | |
| | Washington-New York (JFK) | DH | BD | |
| | Washington-New York (EWR) | DH | BD | |
| | Washington-New York (LGA) | DH | BD | |
| | Washington-Norfolk | DH | BD | |
| | Washington-Philadelphia | DH | BD | |
| | Washington-Pittsburgh | DH | BD | |
| | Washington-Portland, ME | DH | BD | |
| | Washington-Providence | DH | BD | |
| | Washington-Raleigh/Durham | DH | BD | |
| | Washington-Richmond | DH | BD | |
| | Washington-Roanoke | DH | BD | |
| | Washington-Rochester | DH | BD | |
| | Washington-Savannah | DH | BD | |
| | Washington-State College | DH | BD | |
| | Washington-Staunton | DH | BD | |
| | Washington-Syracuse | DH | BD | |
| | Washington-Westchester County | DH | BD | |
| | Virgin Atlantic ⁵ | London-Amsterdam | BD | VS |
| | | London-Belfast | BD | VS |
| | | London-Brussels | BD | VS |
| London-Dublin | | BD | VS | |
| London-Edinburgh | | BD | VS | |
| London-Glasgow | | BD | VS | |
| London-Leeds Bradford | | BD | VS | |
| London-Madrid | | BD | VS | |
| London-Manchester | | BD | VS | |
| London-Milan | | BD | VS | |
| London-Rome | | BD | VS | |
| London-Teesside | | BD | VS | |

⁵ UK domestic code share terminates 27 October, 2001

Joint Applicants' Nonstop Transatlantic Operations

| <u>UA</u> | <u>OS</u> | <u>NG</u> | <u>LH</u> | <u>SK</u> | <u>BD</u> |
|-----------|-----------|-----------|-----------|-----------|-----------|
| AMS-IAD | IAD-VIE | MIA-MUC | ATL-FRA | ARN-EWR | IAD-MAN |
| AMS-ORD | JFK-VIE | | BOS-FRA | ARN-ORD | MAN-ORD |
| BOS-LHR | ORD-VIE | | DEN-FRA | CPH-EWR | |
| BRU-IAD | | | DFW-FRA | CPH-IAD | |
| CDG-IAD | | | DTW-FRA | CPH-ORD | |
| CDG-ORD | | | DUS-EWR | CPH-SEA | |
| CDG-SFO | | | EWR-FRA | OSL-EWR | |
| DEN-FRA | | | EWR-MUC | | |
| DUS-ORD | | | FRA-IAD | | |
| EWR-LHR | | | FRA-IAH | | |
| FRA-IAD | | | FRA-JFK | | |
| FRA-ORD | | | FRA-LAX | | |
| FRA-SFO | | | FRA-MIA | | |
| IAD-LHR | | | FRA-ORD | | |
| IAD-MUC | | | FRA-PHL | | |
| IAD-MXP | | | FRA-PHX | | |
| JFK-LHR | | | FRA-SFO | | |
| LAX-LHR | | | IAD-TXL | | |
| LHR-ORD | | | LAX-MUC | | |
| LHR-SFO | | | MUC-ORD | | |
| | | | MUC-SFO | | |

Source: OAG, September 2001

**COMPETITIVE ANALYSIS OF UNITED'S NONSTOP
UNITED STATES-LONDON CITY-PAIR ROUTES**

United today operates nonstop service to London from six gateways in the United States: Boston, Chicago, Los Angeles, New York/Newark, San Francisco and Washington. In each, United faces substantial nonstop competition on a daily basis from at least two other major carriers and significant indirect competition as well. And that is true whether the market is defined broadly on a gateway-to-gateway basis or more narrowly on the basis of individual airports. Whether measured on the basis of seats or CRS bookings, United's market share in each of these city pairs is quite modest; in only one -- San Francisco-London -- does United operate the largest number of nonstop seats, and even there, its share exceeds British Airways' by only one percentage point. With open skies, moreover, it can be expected that other carriers will enter some of these city pairs on a nonstop basis -- Delta, for example, can be expected to add service between New York (JFK) and London Heathrow, and Continental can be expected to add Newark-Heathrow nonstops to its existing Newark-Gatwick service and code share with Virgin Atlantic on New York-Heathrow flights -- and indirect competition will also increase as U.S. carriers add new service to London from their domestic hubs. Given the extensive direct and indirect competition that already exists in these city pairs, even if bmi was considered to be an independent potential new entrant on some of these routes, it is clear that the grant of immunity to the United/bmi alliance will not cause a substantial reduction in competition.

NEW YORK - LONDON

Six carriers operate daily nonstop services between London and New York City. British Airways, American Airlines, Virgin Atlantic and United each operate multiple daily nonstops to Heathrow, Air India operates a single daily nonstop, and Kuwait Airways operates three times per week; British Airways and Virgin also operate daily nonstop service to Gatwick, as does Continental, which also blocks space and code shares on Virgin Atlantic's nonstop service to Heathrow and Gatwick. As demonstrated in the table below, United operates only a modest 11 percent of the seats in this highly competitive market, a lesser share than British Airways, Virgin Atlantic or American. If measured on the basis of historic CRS booking shares, United's market share was just 11.5 percent, below the shares held by American, British Airways and Virgin Atlantic. United also faces indirect competition on this route from Delta over Boston.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| JFK | LHR | BA | 16,842 | 27 | 21.7 |
| EWR | LHR | BA | 4,242 | 7 | 5.5 |
| JFK | LGW | BA | 1,680 | 3 | 1.9 |
| Total NYC | LON | BA | 22,764 | 37 | 29.1 |
| JFK | LHR | VS | 7,620 | 12 | 15.8 |
| EWR | LHR | VS | 2,835 | 4 | 5.3 |
| EWR | LGW | VS | 2,835 | 4 | 6.2 |
| Total NYC | LON | VS | 13,290 | 20 | 27.3 |
| JFK | LHR | AA | 9,807 | 16 | 13.2 |
| EWR | LHR | AA | 1,736 | 3 | 2.1 |
| Total NYC | LON | AA | 11,543 | 19 | 15.3 |
| JFK | LHR | UA | 4,921 | 8 | 8.8 |
| EWR | LHR | UA | 1,953 | 3 | 2.7 |
| Total NYC | LON | UA | 6,874 | 11 | 11.5 |
| EWR | LGW | CO | 3,626 | 6 | 5.5*** |
| JFK | LHR | AI | 3,045 | 5 | 5.3 |
| JFK | LHR | KU | 873 | 1 | .9 |

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

*** Excludes Continental's share of London passengers traveling under its code on Virgin Atlantic's Heathrow service.

CHICAGO - LONDON

Five carriers operate nonstop service between London (Heathrow) and Chicago:

American, British Airways and United operate multiple daily nonstops, Virgin Atlantic operates a daily nonstop, and Air India operates three times per week. Even though Chicago is United's principal domestic hub, United operates only 27 percent of the available nonstop seats in this city pair, a smaller share than American, which also maintains a hub in Chicago.¹ Measured on the basis of CRS bookings, United's share of local Chicago-London passengers is less than that of American and British Airways and only modestly higher than that of Virgin Atlantic. Even though Air India operates a less than daily service, it provides six percent of the total available nonstop seats and accounts for seven percent of local bookings, a higher percentage of bookings than its share of seats. United also faces indirect competition on this route from Northwest over Detroit, Continental over Newark, Delta over Cincinnati and US Airways over Philadelphia and Pittsburgh. Despite the large number of daily nonstop flights available between Chicago and London Heathrow, indirect services not reflected in the table below collectively account for about six percent of total local bookings. bmi is today able to hold out an indirect service on this route over Manchester. However, this service is economically viable for bmi only because of its cooperation with United on the intercontinental sector between Chicago and Manchester.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| ORD | LHR | AA | 7,301 | 32 | 25.5 |
| ORD | LHR | UA | 6,335 | 27 | 21.2 |
| ORD | LHR | BA | 5,614 | 24 | 22.7 |
| ORD | LHR | VS | 2,590 | 11 | 17.4 |
| ORD | LHR | AI | 1,305 | 6 | 7.2 |

¹ As a result of the recently concluded negotiations between the U.S. and U.K. pursuant to Annex 2 of the bilateral, both United and American will be able to increase their service to London from Chicago during the upcoming winter season to four daily services.

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

WASHINGTON, D.C. - LONDON

Three carriers operate daily nonstop service between Washington and London: British Airways and United, which operate multiple daily nonstops, and Virgin Atlantic, which operates daily. British Airways operates service nonstop between Dulles and Heathrow and also between BWI and Gatwick, whereas United and Virgin Atlantic operate only between Dulles and Heathrow. Continental blocks space and code shares on Virgin's daily nonstop flight to Heathrow; slightly more than five percent of Washington-London local bookings are made under Continental's code. Even though United maintains a hub at Washington Dulles, British Airways operates more weekly nonstop seats between Dulles and Heathrow than United -- 48 percent of all of the nonstop seats available between Washington and London, compared to United's 36 percent.² United also faces indirect competition from American over New York (JFK), Continental over Newark, and US Airways over Philadelphia. Collectively, indirect services not reflected in the table below account for more than 10 percent of local Washington-London bookings. bmi offers indirect services on this route over Manchester. However, this service is economically viable for bmi only because of its cooperation with United on the intercontinental sector between Washington and Manchester.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| IAD | LHR | BA | 6,835 | 39 | 27.6 |
| <u>BWI</u> | <u>LGW</u> | <u>BA</u> | <u>1,680</u> | <u>9</u> | <u>8.7</u> |
| Total WAS | LON | BA | 8,515 | 48 | 36.3 |
| IAD | LHR | UA | 6,335 | 36 | 25.7 |
| IAD | LHR | VS | 2,835 | 16 | 22.5 |

² As a result of the recently concluded negotiations between the U.S. and the U.K. pursuant to Annex 2 of the bilateral, British Airways will be able to operate additional Washington-London frequencies during the upcoming winter season, as will Virgin Atlantic. United in contrast, will operate the same number of frequencies as last winter.

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

BOSTON - LONDON

Five carriers operate daily nonstop services between Boston and London: British Airways, American, Virgin Atlantic, Delta and United. British Airways operates three daily nonstops to Heathrow; American operates double daily service to Heathrow; and Virgin Atlantic and Delta each operate daily nonstop service to Gatwick. Continental blocks space and code shares on Virgin Atlantic's daily nonstop Boston-Gatwick service and, based on CRS booking data, has a 3.4 percent booking share. United, with its daily nonstop to Heathrow, operates only nine percent of the seats in this highly competitive market, a lesser share than three of the other nonstop competitors and an equal share to Delta. Measured on the basis of CRS bookings, United has just 11 percent of the market. Moreover, historic booking data overstates United's current market share because Delta, which is now operating 9 percent of the available seats, only commenced nonstop service on the route in June of 2001.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| BOS | LHR | BA | 7,353 | 44 | 39.4 |
| BOS | LHR | AA | 3,472 | 21 | 19.6 |
| BOS | LGW | VS | 2,835 | 17 | 20.9 |
| BOS | LGW | DL | 1,484 | 9 | 1.1 |
| BOS | LHR | UA | 1,484 | 9 | 11 |

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

LOS ANGELES - LONDON

Five carriers operate daily nonstop service between Los Angeles and London: British Airways, Virgin Atlantic and United each operate double daily service to Heathrow, and American and Air New Zealand offer daily service to Heathrow. Even though Los Angeles is a United hub, both British Airways and Virgin Atlantic garner a greater share of the market based on CRS booking data, with British Airways at 24.9 percent and Virgin Atlantic at 23 percent, compared to United's 18 percent. British Airways and Virgin Atlantic also operate more weekly seats than United -- 30 percent and 26 percent, respectively, of the total nonstop seats compared to United's 21 percent share. Due to Los Angeles' geographic location, United also faces substantial indirect competition on this route, including from Continental via Houston and Newark, Delta via Atlanta and Cincinnati, Northwest via Detroit and Minneapolis, and US Airways via Charlotte, Philadelphia and Pittsburgh. Collectively, indirect services not reflected in the table below account for nearly seven percent of local Los Angeles-London bookings.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| LAX | LHR | BA | 5,614 | 30 | 24.9 |
| LAX | LHR | VS | 4,760 | 26 | 23 |
| LAX | LHR | UA | 3,906 | 21 | 18 |
| LAX | LHR | NZ | 2,744 | 15 | 11 |
| LAX | LHR | AA | 1,533 | 8 | 9.2 |

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

SAN FRANCISCO - LONDON

Three carriers operate daily nonstop flights between San Francisco and London: British Airways and United each operate multiple daily services to Heathrow, while Virgin Atlantic offers daily service to Heathrow and four additional weekly frequencies to Gatwick. Continental blocks space and code shares on Virgin Atlantic's flights and, based on CRS booking data, has a six percent market share. Even though United operates more nonstop seats on this route than either of the other two nonstop competitors, its share of seats exceeds that of British Airways by only one percentage point, and British Airways and Virgin Atlantic (including Continental's seat block) operate nearly 65 percent of the total available nonstop seats. Due to San Francisco's geographic location, United also faces substantial indirect competition on this route, including from American via Chicago and Dallas/Ft. Worth, Continental via Newark, Delta via Atlanta and Cincinnati, Northwest via Detroit and Minneapolis, and US Airways via Pittsburgh and Philadelphia. Collectively, indirect services not reflected in the table below account for about 11 percent of local San Francisco-London bookings.

| <u>Gateway</u> | <u>London Airport</u> | <u>Carrier</u> | <u>Weekly One-Way Seats*</u> | <u>% One-Way Seats</u> | <u>CRS Booking Share**</u> |
|----------------|-----------------------|----------------|------------------------------|------------------------|----------------------------|
| SFO | LHR | UA | 5,866 | 37 | 30.7 |
| SFO | LHR | BA | 5,614 | 36 | 24.4 |
| SFO | LHR | VS | 2,835 | 18 | 22.6 |
| <u>SFO</u> | <u>LGW</u> | <u>VS</u> | <u>1,480</u> | <u>9</u> | <u>5.4</u> |
| Total SFO | LON | VS | 4,315 | 27 | 28 |

* Official Airline Guide September 2001.

** CRS local O&D booking data for the year ended July 31, 2001, including bookings on indirect routings for the service indicated.

Top 50 Origin and Destination Markets to and from the United States

BMI British Midland

| <u>Rank</u> | <u>Non-directional Market</u> | <u>Passenger Bookings</u> |
|-------------|-------------------------------------|---------------------------|
| 1 | Manchester - Washington (IAD) | 4,106 |
| 2 | Manchester - Chicago (ORD) | 2,523 |
| 3 | Manchester - Orlando | 493 |
| 4 | Manchester - Los Angeles | 364 |
| 5 | Manchester - Las Vegas | 342 |
| 6 | Manchester - Boston | 315 |
| 7 | Manchester - San Francisco | 274 |
| 8 | Edinburgh - Washington (IAD) | 269 |
| 9 | Manchester - Tampa | 260 |
| 10 | Glasgow - Chicago (ORD) | 239 |
| 11 | Glasgow - Washington (IAD) | 225 |
| 12 | Manchester - Miami | 208 |
| 13 | Manchester - San Diego | 199 |
| 14 | Manchester - Denver | 197 |
| 15 | Edinburgh - Chicago (ORD) | 192 |
| 16 | Manchester - Atlanta | 177 |
| 17 | Manchester - Seattle | 167 |
| 18 | Manchester - Phoenix | 130 |
| 19 | Manchester - Dallas Ft. Worth | 125 |
| 20 | London (LHR) - Washington (IAD) | 113 |
| 21 | London (LHR) - Chicago (ORD) | 103 |
| 22 | Manchester - Minneapolis St. Paul | 92 |
| 23 | Manchester - Grand Rapids | 83 |
| 24 | Manchester - Philadelphia | 80 |
| 25 | Manchester - Detroit (DTW) | 80 |
| 26 | Manchester - Portland | 76 |
| 27 | Manchester - Houston | 75 |
| 28 | Manchester - New Orleans | 72 |
| 29 | Manchester - Pittsburgh | 57 |
| 30 | Aberdeen - Washington (IAD) | 56 |
| 31 | Glasgow - San Francisco | 55 |
| 32 | Glasgow - Orlando | 48 |
| 33 | Manchester - Charlotte | 42 |
| 34 | Manchester - Indianapolis | 37 |
| 35 | Manchester - Newark | 29 |
| 36 | Manchester - San Jose | 29 |
| 37 | Barcelona - St. Louis | 28 |
| 38 | Manchester - Roanoke | 27 |
| 39 | Manchester - Greenville/Spartanburg | 27 |
| 40 | Manchester - New York (LGA) | 26 |
| 41 | Manchester - Columbus | 26 |
| 42 | Manchester - Salt Lake City | 26 |
| 43 | Manchester - Cleveland | 26 |
| 44 | Manchester - St. Louis | 24 |
| 45 | Manchester - Austin | 24 |
| 46 | Edinburgh - San Diego | 24 |
| 47 | Paris - Chicago (ORD) | 24 |
| 48 | Edinburgh - Dallas Ft. Worth | 23 |
| 49 | Frankfurt - Chicago (ORD) | 22 |
| 50 | Manchester - Raleigh/Durham | 22 |

Source: CRS booking data for 12 months ended July 2001.

**bmi Is Comparable in Size
to Other Smaller European Airlines**

| <u>Airline</u> | <u>Operating Revenue (\$ Millions)</u> | <u>Annual Passengers (000)</u> | <u>Unduplicated Destinations Served</u> | <u>Operating Fleet</u> |
|----------------|--|------------------------------------|---|------------------------|
| bmi | 1,100 | 7,098 | 36 | 55 |
| Finnair | 1,514 | 6,024 | 64 | 58 |
| Czech Airlines | 390 | 2,217 | 59 | 30 |

Source: IATA WATS 2001
Reed Air Transport Intelligence
Company Websites

***Carriers Operating Scheduled International Passenger Service
at United's Domestic Marketing Hubs***

| <u>Chicago (ORD)</u> | <u>Denver (DEN)</u> | <u>Los Angeles (LAX)</u> | <u>San Francisco (SFO)</u> | <u>Washington (IAD)</u> |
|-----------------------------|----------------------------|---------------------------------|-----------------------------------|--------------------------------|
| Aer Lingus | Air Canada | Aer Lingus | Air Canada | Aeroflot |
| Aeroflot | British Airways | Aero California | Air China | Air Canada |
| Aeromexico | Lufthansa | Aeroflot | Air France | Air France |
| Air Canada | MEXICANA | Aerolineas Argentinas | Alaska Airlines | All Nippon Airways |
| Air France | United Airlines | Aeromexico | Alitalia | Austrian Airlines |
| Air Jamaica | | Air Canada | All Nippon Airways | British Airways |
| Air India | | Air China | Asiana Airlines | British Midland |
| Alitalia | | Air France | British Airways | BWIA International |
| All Nippon Airways | | Air Jamaica | Cathay Pacific | Korean Airlines |
| American Airlines | | Air Liberte | China Airlines | Lufthansa |
| Austrian Airlines | | Air New Zealand | EVA Airways | Northwest Airlines |
| British Airways | | Air Pacific | Japan Air Lines | SABENA |
| British Midland | | Air Tahiti | KLM | SAS |
| Iberia | | Alaska Airlines | Korean Air | Spanair |
| Japan Air Lines | | Alitalia | Lufthansa | Swissair |
| KLM | | All Nippon Airways | MEXICANA | TACA |
| Korean Air | | American Airlines | Northwest Airlines | United Airlines |
| Kuwait Airways | | AmericanTransAir | Philippine Airlines | Virgin Atlantic |
| LOT | | Asiana Airlines | Singapore Airlines | |
| Lufthansa | | British Airways | Swissair | |
| MEXICANA | | Canada 3000 | TACA | |
| Royal Jordanian | | Cathay Pacific | United Airlines | |
| SABENA | | China Airlines | Virgin Atlantic | |
| SAS | | China Eastern | | |
| Singapore Airlines | | China Southern | | |
| Swissair | | COPA | | |
| Turkish Airlines | | Delta Air Lines | | |
| United Airlines | | EVA Airways | | |
| Virgin Atlantic | | Japan Air Lines | | |
| | | KLM | | |
| | | Korean Air | | |
| | | LACSA | | |
| | | LAN - Chile | | |
| | | Lan Peru | | |
| | | L.T.U. International | | |
| | | Lufthansa | | |
| | | Malaysian Airline System | | |
| | | MEXICANA | | |
| | | Northwest Airlines | | |
| | | Qantas Airways | | |
| | | Singapore Airlines | | |
| | | Swissair | | |
| | | TACA | | |
| | | Thai Airways | | |
| | | United Airlines | | |
| | | VARIG | | |
| | | Virgin Atlantic | | |

Source: OAG, September 2001

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Joint Application of United Airlines, Inc., and British Midland Airways, Austrian Airlines, Osterreichische Luftverkehrs AG, Lauda Air Luftfahrt AG, Deutsche Lufthansa, A.G., and Scandinavian Airlines System upon all persons on the attached Service List by causing a copy to be sent via first-class mail, postage prepaid.


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